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Washington, D.C. 20548

Accounting and Information  
Management Division

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September 30, 1993

Vice Admiral David M. Bennett  
Naval Inspector General  
Department of the Navy



Dear Admiral Bennett:

At the request of the Chairman, Subcommittee on Readiness, House Committee on Armed Services, we are reviewing the effectiveness of the Navy inspectors general activities. Since our work to date has assessed certain aspects of the Naval Command Inspection Program (NCIP), your inspection staff requested us to comment on a draft revision of Instruction 5040.7K. This instruction prescribes the objectives, policies, and procedures that inspectors general staff are to follow when inspecting Navy units.

We discussed a number of our observations of the draft instruction with the Director of the Inspection Division and members of his staff. The purpose of this letter is to summarize our observations and suggestions.

OBJECTIVES AND POLICIES OF INSPECTIONS

The objectives and policies of the NCIP are stated differently throughout the draft. For example, paragraph 6 emphasizes assessing readiness, effectiveness and efficiency, as well as the quantity, quality, and management of available resources as inspection objectives. Paragraph 11a, on the other hand, emphasizes assessing the internal management, operation, and administration of a command. These variations in the wording of the objectives and policies paragraphs could result in command inspectors general inconsistently interpreting and implementing the instruction. While we are not at this time evaluating the NCIP objectives and policies, we suggest that you develop an initial section that clearly states inspection objectives and policies, then refer back to this section as needed to ensure that all users are provided consistent guidance.

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In addition, the term "inspection" is not consistently defined throughout the draft instruction. In paragraph one, inspection is defined as encompassing the efforts of all authorities within the Navy that periodically evaluate commands and units. Enclosure 1, which contains the definition section of the instruction, indicates that an inspection only applies to personnel and material areas that affect mission accomplishment. A consistent definition of inspection is important in order for all users of the instruction to have a clear understanding of what constitutes an inspection. Therefore, we suggest that you use a single definition of inspection throughout the instruction.

Moreover, the draft instruction requires the incorporation of audit results in the performance of command inspections. However, the definition of audit, in enclosure 1, paragraph e, only includes one type of audit--financial audit. The Comptroller General's Government Auditing Standards (Yellow Book) also includes performance audits in the definition of an audit and classifies these audits as either economy and efficiency audits or program audits. We suggest that you use the Yellow Book definition of an audit to ensure consistency.

#### INSPECTION GUIDES

The draft instruction does not require the use of inspection guides. Paragraph 6k of the current instruction requires commands to prepare inspection guides. The current instruction notes that these guides are particularly important in standardizing inspections since inspection teams consist primarily of temporary inspectors.

According to your inspection staff, the guideline requirement is being deleted because many viewed the guidelines as a mechanical checklist used for assessing compliance with the administrative provisions of various directives. We believe that written inspection guides are important and should not be regarded merely as a checklist of steps to be conducted. Inspection guides should be designed to assess the effectiveness of activities in achieving stated objectives within an adequate system of internal controls. To effectively perform inspections, inspection personnel should understand the objectives of the inspection and use their own initiative, judgment, and experience in determining the appropriateness of the steps in an inspection guide and in assessing the results of the work. We suggest that you keep and expand the current requirement for inspection guides in order to better define the inspection approach, the areas to be inspected, and the types of assessments and techniques that should be used.

### TREND ANALYSES AND PERFORMANCE MEASURES

The draft instruction does not address conducting trend analyses or developing and using performance measures for assessing the effectiveness of the inspected unit. The Chief Financial Officers Act of 1990 (Public Law 101-576) and the Government Performance and Results Act of 1993 (Public Law 103-62) emphasize the importance of the systematic measurements of agency performance. Trend analyses and performance measures can give inspection personnel and commanders quantitative information on how a unit is performing its mission over time. Specifically, such data can provide management with the means to (1) assess the performance of unit personnel, (2) identify similar problems among commands that indicate faulty program policies and procedures, and (3) assess the accomplishments of the inspection system in identifying and resolving problems and making systemic improvements. Also, by reviewing performance measures, inspection personnel can discern and target areas needing improvement. We suggest that you include a requirement for performing trend analyses and developing and using performance measures as a part of the inspection process.

### REPORTING GUIDANCE

A description of the scope and methodology for achieving the objectives of the inspection is important for the readers to understand the purpose of the inspection, judge the merits of the inspection and what is reported, and understand any significant limitation of the inspection. The draft instruction, however, does not require a full reporting of the scope, methodology, and results of each area inspected. For example, enclosure 5, paragraph 1b(1), requires only that reports contain an overall evaluation of the command, comments as required to substantiate the evaluation, and recommendations for correcting deficiencies. Further, enclosure 3, paragraph d, does not require the inspection personnel to state why the Chief of Naval Operation's special interest items, such as hazardous material control and management, do not apply to the inspection of some commands.

The inspection reports for some areas that we reviewed stated that the unit had an outstanding program without providing an explanation for this conclusion. Further, other reports stated that a unit did not comply with regulations but did not identify the nature, extent, cause, or effect of the compliance problem. We suggest that the draft instruction include a standardized format for the contents of inspection reports, such as the justification for the inspector's overall conclusion or documentation of the rationale for not including an item in the inspection.

REFERRAL AND FOLLOW-UP OF FINDINGS

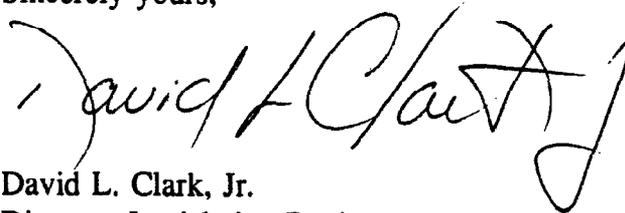
Inspectors at lower level units sometimes identify potential systemic weaknesses. However, because they do not have the authority to ensure that remedial follow-up action is taken, these weaknesses need to be addressed by staff at the Navy headquarters level. Also, the effectiveness of follow-up actions could be improved if the instruction required the referral of the problems to appropriate officials of the management control, command evaluation, and/or internal review programs. For example, paragraph 7o should require that inspectors notify the Naval Criminal Investigative Service if they find indications of criminality.

If appropriate follow-up action is not taken at the highest echelons, the Navy may continue to experience the same problems and lose much of the potential benefits and savings which would result from identifying and implementing systemic corrective actions. We suggest that the instruction designate a Navy unit to be responsible for tracking systemic problems and assuring that headquarters commands take appropriate follow-up action on systemic problems reported by lower-level commands. This follow-up effort would help ensure that headquarters managers are held accountable for expeditious and effective action.

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Since we have not yet completed our review, we may have additional comments on the inspection program. Should you have any questions about our observations, please contact Joseph Potter, Assistant Director, Legislative Reviews and Audit Oversight, at (202) 512-5198, or Dan Omahen, Evaluator-in-Charge in our Norfolk Regional Office, at (804) 552-8158. We appreciate the continuing cooperation of your staff as we conduct our review.

Sincerely yours,



David L. Clark, Jr.  
Director, Legislative Reviews  
and Audit Oversight

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