



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

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JUN 9 1978

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

Dear Mr. Chairman:

Your letter of May 9, 1978, requested our comments on testimony of the Secretary of the Air Force and Under Secretary of the Navy on new points raised by them during your Subcommittee's hearings on internal auditing in the Departments of the Air Force and Navy. Because the General Accounting Office (GAO) had not previously commented on these points, you also requested that we comment on the testimony provided by Assistant Secretary of Defense Wacker, Secretary of the Air Force Stetson, and Under Secretary of the Navy Woolsey concerning the civilian/military staff issue. We have reviewed this testimony and the points they raised. Our position that the heads of the military department internal audit agencies should be qualified civilians remains unchanged. We believe that so long as these positions are filled with military officers, the standard of independence will not be fully met. Our specific comments follow.

THE INDEPENDENCE ISSUE

You also asked which of the GAO standards a military auditor general would have difficulty fulfilling. The third general standard for governmental auditing is:

In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.*

In the standards, the explanatory comment states that the purpose of this standard is to insure that opinions, conclusions, judgements and recommendations will be impartial. Further, explanatory comment instructs the auditor to consider whether there is anything about his situation which would lead others to question his independence because it is important that the auditor not only be independent but that others will consider him so.

*Comptroller General of the United States, Standards for Audit of Governmental, Organizations, Programs, Activities & Functions, p. 15.

The underlying philosophy is this. It is impossible to tell whether another person is truly independent and therefore impartial. Accordingly, in our society we have come to judge independence on the basis of the "appearance of independence." In other words, is the person concerned in a position where he is not subject to pressures that might impinge on his independence by threatening his livelihood, his reputation or something else he considers of value such as the likelihood of his continued advancement?

We believe the situation in which military officers find themselves makes it difficult to give the appearance of independence. While we have no reason to believe the present Auditors General of either the Air Force or Navy, or any members of their staffs are not honorable or objective individuals, it is more difficult for them to give the appearance of independence because whether real or imagined, as a military officer the Auditor General is seen as always having to be concerned with the views of his superiors. The superior officer he audits today may be on his promotion board tomorrow or, because of frequent rotation, may be his next commanding officer. We believe that qualified civilians would bring greater independence to such positions.

NEW POINTS INTRODUCED IN SERVICE'S TESTIMONY

Our comments on new points raised in testimony of Secretary Stetson and Undersecretary Woolsey of the Air Force and Navy, respectively follow.

Moving Military out Makes the Audit Service an External Audit Function

In his testimony Secretary Stetson said that his concern in moving the military out of positions within the audit function is that it would become an external auditing function comparable to that of an outside CPA firm and the military would not feel it was their management tool.

We do not believe the issue of whether the auditors are more like external auditors or internal auditors is particularly germane to the problem of improving internal audit in the military services. What is desired of auditors both internal and external is that they provide objective and accurate information about the entities they audit. External auditors are generally considered more independent (and thus more objective) because they are not under the direct management control of the organization being audited. If internal auditors can achieve the same degree of objectivity, so much the better.

Insofar as whether the military will or will not regard the audit service as their management tool, we think it should be regarded primarily as the management tool of the Secretary and his top assistants. If he gives it his support, it should be effective.

Insofar as serving management's needs are concerned, internal auditors are generally more responsive since they are employees and can be directed to examine whatever management feels needs their attention. As indicated in Secretary Stetson's testimony, the Air Force Audit Service now reports to the Secretary and Under Secretary. We believe an audit service headed by a civilian and staffed largely with civilians would be no less responsive to the Secretary's requests than an audit service headed by military personnel and largely staffed with military personnel.

Explaining Audit Function
to Military Personnel

Under Secretary Woolsey expressed the belief that a military organization has more confidence in the ability of a military auditor general to explain the audit function to them.

In theory, this may be true but in practice we wonder whether the people placed in this position in recent years are as qualified to explain the audit function to anyone--military or civilian--as a professional auditor or financial manager would be. The Auditor General immediately preceding the incumbent was a naval aviator. The current incumbent is also a line officer we have been told. We find it odd that the Navy does not consider extensive experience in auditing or financial management a prerequisite for such an assignment.

A Military Man Would Work
More Harmoniously with
Fellow Officers

Under Secretary Woolsey also stated that he believes the military organization has more confidence in the ability of a military Auditor General to work closely with his fellow flag grade officers in coming up with common solutions to problems.

We believe Secretary Woolsey's position is correct but we believe it is not as important as some of the things that must be given up to obtain this benefit. Internal auditors are

frequently called the "eyes and ears" of management. This means that the auditors check performance and investigate problems that management would do for itself if it had the time. In this country, we have espoused the principle that the military is under civilian control. Top management is therefore civilian and it seems to us that a civilian may be freer and better able to explain problems and issues to such a top management than a military person.

Using Military Personnel
in Staff Positions

According to the testimony of Secretary Stetson and Under Secretary Woolsey, Assistant Secretary of Defense Wacker was not convinced that internal audit positions should be filled by civilians to the exclusion of the military. The Secretary of the Air Force and Under Secretary of the Navy placed a high value on the skills and knowledge acquired through military training and experience. As we said in our reports, we consider that management intern or training assignments for military personnel in the audit agencies are entirely appropriate and can significantly contribute to managerial awareness and skills when military staff assigned to these positions move on to new military duties. However, we continue to believe that long standing experience and strong qualifications in audit and financial management should be requisites for assignment to management and policy making roles in the audit profession.

We do not agree with either Secretary Stetson or Under Secretary Woolsey that military training, expertise, experience and judgment are necessary either to avoid perceptions by military staff that the audit agencies will otherwise become external audit functions or to support suppositions that civilian auditors who are not career military staff do not know and understand the military function. On the contrary, we have noted in a prior hearing that the Army Audit Agency has had long standing experience in auditing all activities and operations of the Department of the Army. Its reports containing conclusions and recommendations are highly respected and widely used by all levels of Army management. According to prior testimony of the Director of Army Management, a general staff officer, the Army does not experience these problems. The Army Audit Agency has no military auditors.

In the past, it has been presumed by managers at all levels of government that in order to audit highly technical operations, the auditor must have technical training in the area being audited. For example, the Navy for some years systematically excluded some technical medical and nuclear

- 5 -

areas from its audit coverage for these reasons. We do not agree with this view. In the military, audits of combat related or tactical functions are not unique. In these kinds of audits, auditors review reported accomplishments; compare them to policies and standards prescribed by both military and civilian personnel and determine whether the policies and standards have been met. Very often the auditor's understanding of highly technical operations is facilitated by the use of consultants, other specialists and even through discussions with technical and professional staff of the function undergoing the audit.

We trust that these comments meet your needs. If we can be of further service please let me know.

Sincerely yours,

R.F.KELLER

Acting

Comptroller General
of the United States