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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548



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November 28, 1979

The Honorable Lawton Chiles
Chairman, Subcommittee on Federal
Spending Practices and Open
Government
Committee on Governmental Affairs
United States Senate

SE 106609

Dear Mr. Chairman:

Subject: [Evaluation of the Department of
Energy's Office of Inspector
General] (EMD-80-29)

On October 9, 1979, you requested that we review the process and procedures in the Department of Energy's Inspector General Office and provide you with a report in time for hearings planned for early December. As agreed in discussions with your office, our review dealt primarily with the Inspector General's planning, audit coverage, audit followup, and staffing. We also agreed to look at the Department's decentralized audit organization and the desirability of a separate appropriation line item for the Inspector General.

BACKGROUND AND SCOPE

The Department was established on October 1, 1977, by the Department of Energy Organization Act (P.L. 95-91) and is responsible for carrying out the Nation's energy policies and programs. During fiscal year 1979, the Department had, in total, about 20,000 employees and an annual budget of \$10 billion. The Department's Office of Inspector General, created by the Department of Energy Organization Act, is required to

- supervise, coordinate, and provide policy direction for the Department's auditing activities;
- recommend policies for, and to conduct, supervise, or coordinate other departmental activities for the purpose of promoting economy and efficiency, and preventing and detecting fraud and abuse;

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- recommend policies for, and to conduct, supervise, or coordinate relationships between the Department and other Federal agencies, State and local governments, and non-governmental entities concerning the promotion of economy and efficiency, and the prevention and detection of fraud and abuse;
- keep the Secretary and the Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies; and
- coordinate actions with the Comptroller General to avoid duplication.

These requirements are somewhat similar to those of the Inspector General Act of 1978 which later established an Office of Inspector General in 12 Federal departments and agencies. There are some differences between the two acts. For example, the Department of Energy Inspector General reports annually to the Congress, while the others report semiannually. Also, the Department of Energy Inspector General has a Presidentially appointed deputy, while the others do not.

The Inspector General reports to the Secretary of Energy and is supported by a deputy, along with three assistant inspectors general--one each for audits, inspections, and investigations. The chart on the following page shows how the Inspector General's 111 staff members are used. Additionally, the Department has 125 field auditors who report to managers of the Department's field operations offices and not to the Inspector General.

The Inspector General's investigators primarily conduct criminal investigations, and his inspectors examine programs with heavy technological content. Inspector General auditors are responsible for audits of financial and compliance matters, efficiency and economy questions, and program results issues.

<u>Organizational unit</u>	<u>Number of employees as of Oct. 16, 1979 (note a)</u>	<u>Number of profes- sional employees in field locations</u>
The Inspector General and Deputy Inspector General	7	0
Office of Assistant Inspector General for Audits	45	12
Office of Assistant Inspector General for Investigations	25	5
Office of Assistant Inspector General for Inspections	15	0
Executive Office	<u>19</u>	<u>0</u>
Total	<u>111</u>	<u>17</u>

a/Includes professional, secretarial and clerical employees.

We made our review at Department headquarters in Washington, D.C., and at the Department's operations offices in Chicago, Illinois, and San Francisco, California. We reviewed the Inspector General's audit activities in relation to the Comptroller General's "Standard for Audit of Governmental Organizations, Programs, Activities, and Functions," the requirements of Office of Management and Budget Circular No. A-73 on Federal audits, and the Department of Energy Organization Act.

In making our review, we interviewed Office of Inspector General officials, as well as departmental officials at headquarters and field offices. We also reviewed audit plans, reports, guidelines, and memorandums. Because GAO's Fraud Task Force is reviewing the Inspector

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General's investigative activities, our review was primarily directed at the Inspector General's audit and inspection activities 1/ and did not include the investigative function.

SUMMARY

Our overall conclusion is that the Department's Office of Inspector General could be more effective in monitoring, as required by law, the Department's programs and operations. The office does not have an adequate plan which would provide for a systematic review of all the Department's programs and operations. The Inspector General acknowledges the weakness in audit planning and attributes it primarily to a need for more resources. Nevertheless, without such planning it is not possible to determine the total resources needed to audit all Department programs effectively. The Department currently has 125 field auditors not under the direct control of the Inspector General. We believe they should be. This would provide maximum independence in auditing activities and potentially give the Inspector General greater flexibility in using staff resources.

Other matters discussed in this letter include the need for more explicit policies outlining the Inspector General's responsibilities and detailing methods of operation to his staff. We also discuss the desirability of a separate appropriation line item for the Inspector General.

NEED TO BETTER PLAN INSPECTOR GENERAL ACTIVITIES

The Office of Inspector General does not have an adequate plan to review systematically the Department's operations. All Federal agencies are required by Office of Management and Budget Circular No. A-73 to develop annual audit plans for periodic reviews of programs and operations and to determine the coverage, frequency, and priority of audits required. At a minimum, each agency is required to prepare audit plans that reflect

1/Throughout the remainder of this report, the audit and inspection functions are collectively referred to as audit functions.

- all programs and operations subject to audit;
- programs and operations selected for audit, with priorities and specific reasons for selection;
- which organization will make the audit;
- audit cycle or frequency, the locations to be audited, and why; and
- anticipated benefits to be obtained from the audits.

The Inspector General's first annual plan for the 12-month period ending June 30, 1980, did not contain any of the above information. This plan was submitted on June 11, 1979. Moreover, his July 1979 plan for the remainder of calendar year 1979 did not reflect the majority of the above factors. Instead, the Inspector General used four general criteria in selecting programs for audits. Audits were to be performed in

- areas where large amounts of money are being spent quickly;
- areas where monetary gains resulting from successful evasions of law and regulations can be very large;
- areas of high technological risk-taking; and
- areas presenting unusually difficult monitoring and control problems.

Audit coverage of these areas is important, but we found it incomplete, in part because the Inspector General has not established any systematic way to ensure adequate coverage. The following activities, for example, have not been audited by the Inspector General.

- The five power administrations with more than \$13 billion in capital investment and fiscal year 1978 sales in excess of \$636 million.
- The Department's 2400 computer systems with an aggregate acquisition cost of \$640 million.

The Inspector General has also identified the above areas and others where audit coverage is lacking. Better planning, in our opinion, would provide for improved coverage of these activities in the future.

The Inspector General acknowledges the weakness in audit planning and attributes it primarily to a need for more resources. We believe, however, that limited resources make the need for effective planning even more critical. In this regard, the former Deputy Secretary suggested to the Inspector General that a plan would be a valuable management tool for, among other things, determining total resource needs.

The actual number of staff members required to effectively carry out the duties and responsibilities of the Office is not known because the Office has not developed sound plans for identifying and addressing the Department's auditing needs and for determining the resources required to meet these needs. Nevertheless, we believe the Department's potential audit workload far exceeds that which can be accomplished by the Inspector General's 55 auditors. In this regard, a simple comparison with the audit staffs of other major departments shows other Inspector General offices with larger staffing levels. However, in the absence of an adequate plan, it is not possible to determine the number of staff members needed to audit the Department effectively.

The Department's fiscal year 1980 appropriation includes funds which will be used for 28 additional auditors, but we believe more are needed to provide adequate audit coverage of the Department's programs and operations. Although a more precise estimate of the number of auditors needed will be contingent on the development of a comprehensive plan, some Inspector General officials thought that a staff of at least 400 would be needed. A comprehensive audit plan would help the Inspector General ensure that current limited resources are being most effectively applied. It would at the same time provide a basis for determining what additional resources are needed.

MORE FORMAL GUIDANCE NEEDED

To be more effective, the Office of Inspector General also needs to give more formal guidance to departmental officials regarding his role, responsibilities, and operating procedures. In addition, the audit staff should receive more explicit instructions concerning auditing methods, the frequency and conduct of audits, developing findings and reporting audit results, and following up on audit recommendations.

The Inspector General has not developed a departmental order covering the policies and procedures to be used in carrying out his activities and defining the interrelationships with the secretarial officers and office directors. Moreover, few written instructions have been issued to the

Inspector General's staff regarding office operations in conducting audits.

In addition, effective procedures have not existed for following up on actions taken in response to audit recommendations. Consequently, there has been little assurance that timely and appropriate actions are being taken in response to recommendations in audit reports. Between March 31, 1979, and August 30, 1979, six internal audit reports had been issued, but only two had received any followup action. In this regard, the Inspector General initiated action on November 7, 1979, to learn what has been done on his recommendations made earlier in the year.

To help improve staff productivity and to facilitate effective audits, we believe that the Inspector General should define and document the overall policies, procedures, and guidelines for his Office.

AUDIT STAFF NOT UNDER THE
INSPECTOR GENERAL'S CONTROL

There are 125 auditors in the Department who report to the managers of the field operations offices and are not controlled by the Inspector General. This arrangement does not ensure maximum independence in selecting activities for review and reporting audit results, and has inhibited reviews of the operations offices' effectiveness. Thus, we believe the Inspector General should have under his control all staff with responsibility for auditing departmental programs and operations.

Field operations managers stated that much of the work of their auditors directly supports management responsibilities to administer and manage contractor operations and, to some extent, evaluate contractor performance. Nevertheless, field auditors are not independent of the officials responsible for the operations they review. This violates a basic auditing precept. Field operations managers also stated that independence and objectivity exist because field auditors are reviewing contractors and not field operations offices. However, the disclosure of inadequate contractor performance reflects on the field manager's effectiveness. As a result, the ability of field auditors to evaluate independently the effectiveness of contractor operations is open to question.

The relationships between the field office managers and the contractors they manage should be evaluated in determining whether the operations offices are effective. The field audit arrangement has inhibited reviews of program effectiveness.

An Inspector General's Office study of field audit reports found few reports that addressed program effectiveness or commented on management shortcomings.

Department officials advised us that resolution of the decentralized audit issue should be initiated by the Inspector General. The Inspector General believes that the field auditors could be used more effectively if they were assigned to him and has asked the Secretary to make such a reassignment. However, at the close of our field work in October 1979, the field auditors were still assigned to the field managers.

In addition to the field auditors, the Department has several offices, both at headquarters and in the field, with responsibilities for program evaluations. These offices should be examined to determine if they should also be under the Inspector General's control.

A SEPARATE APPROPRIATION LINE
ITEM WOULD HIGHLIGHT THE
INSPECTOR GENERAL'S RESOURCE NEEDS

The Office of Inspector General's budget is presently included in the Management and Support section of the Department's administrative appropriation request. This appropriation supports other offices, including activities such as equal opportunity, international affairs, policy and evaluation, and intergovernmental relations. While these activities are important, they do not have the broad responsibility for promoting economy, efficiency, and effectiveness that has been accorded the Office of Inspector General.

Adequate resources are of the utmost importance in ensuring the effectiveness of the Office of Inspector General. We recognize that a separate appropriation line item, by itself, will not ensure that adequate resources are provided. It will, however, provide further assurance of the Inspector General's independence and added visibility to his needs. In this regard, the fiscal year 1980 Energy and Water Development Act (P.L. 96-69) identified a specific funding level for the Inspector General's Office.

The Congress has accorded the Inspector General unique responsibilities to promote economy, efficiency, and effectiveness, and to prevent fraud and abuse in the Department's programs and operations. Because of this unique role, we believe that the Inspector General should not have to compete with other Department offices and functions for resources. His resource needs should be considered separately. In this regard, the Inspector General at the Department of Agriculture operates under a separate appropriation line item.

CONCLUSIONS

The Department's Office of Inspector General could be more effective in monitoring, as required by law, the Department's programs and operations. The Office does not have an adequate plan which would provide for a systematic review of the Department's programs and operations. In the absence of such a plan, it is not possible to determine the number of resources needed to audit the Department effectively. Nevertheless, a simple comparison with the audit staffs of other major departments shows other Inspector General offices with larger staffing levels.

The Department has 125 field auditors who now report to the managers of the Department's field operations offices. These auditors should be under the control of the Inspector General to provide maximum independence in selecting activities for review and reporting audit results and to potentially give the Inspector General greater flexibility in using staff resources.

The Inspector General has not developed sufficient formal guidelines concerning his mission, responsibilities, and relationship with other departmental officials. Additionally, the audit staff which is available for audit activities has been given little formal guidance.

The Inspector General was created to ensure an independent and impartial source of information concerning the Department's programs and operations. To ensure his independence, the Department of Energy Organization Act requires the Inspector General to report to the Secretary or the Deputy Secretary and to keep the Secretary and the Congress fully and currently informed by reports on his activities. The Inspector General's budget is presently included in the Department's administrative appropriation request. As a result, the Inspector General must compete with other offices for his resources. We believe a separate appropriation line item for the Inspector General would highlight his resource needs and further assure his independence.

RECOMMENDATIONS

To provide greater assurance that the Department's programs and operations receive adequate audit coverage and to provide a sound basis for determining resource needs, we recommend that the Inspector General develop a comprehensive plan for auditing the Department's programs and operations.

To communicate objectives and methods of operation, we also recommend that the Inspector General provide formal guidance to his staff, including procedures for following up on timeliness and adequacy of Department actions in response to audit recommendations.

To provide for an independent audit organization consistent with the Inspector General concept, we recommend that the Secretary reorganize the Department's field auditors under the Inspector General and provide any additional staffing resources which are necessary to enable him to carry out his responsibilities effectively. The Secretary should also review other offices in the Department with program evaluation functions and determine whether they should be under the Inspector General's control.

To further assure his independence and highlight his resource needs, we further recommend that the Secretary seek a separate appropriation line item for the Inspector General.

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As arranged with your office, we plan no further distribution of this report until 30 days from the date of the report, unless you publicly announce its contents earlier. At that time, we will send copies to interested parties and make copies available to others upon request.

As requested by your office we did not obtain formal comments on this report; however, the facts were discussed with Department officials and their comments were incorporated as appropriate.

Sincerely yours,


ACTING Comptroller General
of the United States