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BY THE COMPTROLLER GENERAL



Report To The Congress

OF THE UNITED STATES

10,852

Federal Civilian Audit Organizations Have Often Been Unsuccessful In Obtaining Additional Staff

The problems disclosed in a 1976 GAO report that were associated with obtaining sufficient audit staff in Government agencies persist today. In the past 5 years, agency audit organizations frequently have been unsuccessful in obtaining additional staff. This situation is hampering the efforts of two Offices of Inspector General in their reviews of fraud and abuse in Government and will create problems for other Inspector General offices established recently.

The Office of Management and Budget should develop guidelines to assist Federal agency management in determining the appropriateness of the size of their audit staffs. Also, the Congress should inquire about the adequacy and effectiveness of Federal internal audit staffs at agency oversight and appropriations hearings.



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

B-160759

To the President of the Senate and the
Speaker of the House of Representatives

The Congress, through enactment of the Inspector General Act of 1978, has recognized that audit, combined with investigation, can play an important part in the Government's efforts to prevent and detect fraud, waste, and error in its departments and agencies. However, unless sufficient audit resources are provided, the Offices of Inspector General may have difficulty in carrying out the work that the Congress envisions for them.

While several Federal audit organizations received substantial increases in staff in the past 5 years, most were not successful in obtaining additional personnel to review the increasing volume of programs, activities, and functions carried out by their agencies. The primary reasons were that

--agencies drastically reduced or did not approve requests for additional audit staff;

--the Office of Management and Budget (OMB) and the Congress reduced certain agency requests for audit staff; and

--agencies decreased audit staff in response to overall ceiling reductions imposed by OMB.

We have long supported a strong Federal internal audit capability. Our involvement in this area dates back to the Accounting and Auditing Act of 1950, which required Federal agencies to establish appropriate internal audit. We issued statements of basic principles and concepts of internal auditing to provide guidance to the agencies in developing their internal audit organizations and procedures.

One of our continuing concerns has been the adequacy of internal audit staff resources, a subject which has become even more important with the passage of the Inspector General Act of 1978. Prior reports issued by our Office have stated that some Federal audit staffs are too small. This report discusses the efforts made by the major Federal agencies to increase audit resources during fiscal 1974 through 1978.

We reviewed the changes in staffing of 22 audit organizations in 15 Federal departments and agencies. 1/ Our review included the Departments of Justice and the Treasury and all Federal civilian agencies with statutory Offices of Inspector General, except the Department of Energy. That Department was unable to supply detailed information on audit staffing for the 5-year period covered by our review because it is a relatively new Department.

The total audit staff of these audit organizations increased from 3,399 in fiscal 1974 to 4,153 at the end of fiscal 1978. However, as shown in appendix I, almost all the additional personnel were gained by just 6 of the 22 audit organizations. The others had small increases or lost personnel during that period.

The audit organizations provided us with information on the results of their requests for additional staff as the requests moved through the various stages of approval or disapproval by their agency, the Office of Management and Budget, and the Congress. 2/ They also advised us of actions taken outside of this process that increased or decreased audit staff. According to their information, during fiscal 1974 through 1978

--the audit organizations originally requested 3,084 additional staff positions, 3/

--their agencies approved 1,242 of those requested and submitted that number to OMB,

--the Office of Management and Budget allowed requests for 638 to be forwarded to the Congress, and

--the Congress raised the number approved to 798.

1/The Community Services Administration and the Department of Commerce had two audit organizations; the Department of Justice had three; and the Department of Transportation had four.

2/The audit organizations generally referred to actions taken by the appropriations committees concerning audit staff increases as congressional approval. The term "approved by the Congress" is used in this sense throughout the report.

3/In the information provided, positions denied in one year and requested again in another were considered as requests in both years.

However, other actions by the agencies reduced the net gain received by the audit organizations to 754. The review and approval process and the executive actions by agencies are traced below.

AGENCIES SUBSTANTIALLY REDUCED OR
DISAPPROVED REQUESTS FOR AUDIT STAFF

About 60 percent of the total additional positions requested during fiscal 1974 through 1978 by the 22 audit organizations reviewed was disapproved by their agencies. Appendix II shows that 4 of the 22 audit organizations fared particularly poorly in their efforts to obtain staff. The Department of Commerce, the Department of Transportation's auditors in the Federal Aviation Administration, and the two audit organizations in the Community Services Administration did not receive approval of any of the 130 total positions they requested.

Other audit organizations that did not do well in obtaining agency approval for increases were the Departments of the Interior (15 approved of 139) and Labor (40 of 140); the Environmental Protection Agency (42 of 289); and the Federal Highway Administration of the Department of Transportation (6 of 43).

In terms of high percentages of approval by their agencies, the General Services Administration and the Department of Agriculture fared the best with 74 and 70 percent, respectively. However, the General Services Administration actually received only about 10 percent of the staff it requested, and, over the 5-year period, the Department of Agriculture eventually showed a net loss of audit personnel.

OMB APPROVED HALF THE AUDIT
POSITIONS REQUESTED BY AGENCIES

Appendix III shows that OMB approved 51 percent of the total audit positions requested by the agencies reviewed. 1/

1/The audit organizations provided us with information showing the number of positions approved by OMB. However, an OMB representative told us that while increases or decreases in staff in functional areas such as internal audit may be suggested by OMB budget examiners to agency officials, the only official approval provided is contained in the allowance letters OMB sends to agencies which set overall ceilings for total agency personnel. These letters generally do not mention specific functional areas.

However, the actual percentages varied considerably for the audit organizations. For example, the Department of Labor received approval for all 40 positions it requested, and the Environmental Protection Agency was allowed 37 of 42 positions requested, which was an 88-percent approval rate. The General Services Administration was allowed 38 of 58 positions requested, for a 66-percent approval rate.

The Department of the Treasury received approval for almost half of the 305 positions it requested; the Department of Health, Education, and Welfare (HEW) had about one-third of the 454 positions it asked for approved. These two departments, along with the Department of Commerce's Maritime Administration, which received approval for only 2 of 16 positions requested, were the only agencies--other than the Department of Transportation--to receive less than 50-percent approval.

The Department of Transportation's audit organizations received approval for 4 of 12 positions. The 4 positions requested for the Urban Mass Transportation Administration's audit organization were all approved, but the 2 positions requested for the Department and the 6 positions requested for the Department's Federal Highway Administration were not approved.

ACTION TAKEN BY THE CONGRESS

The Congress allowed agencies more audit positions, in total, than OMB approved. Appendix IV shows that the Departments of the Treasury, HEW, Housing and Urban Development, and Justice received less than total approval, and that the General Services Administration, with 20 of 38 approved, had one of the lowest approval rates.

Two agencies received more positions from the Congress than OMB had approved. The Department of the Interior had been allowed 9 positions by OMB but was allocated 19 by the Congress. The additional 10 positions were intended to provide increased audit coverage of the Department's Bureau of Indian Affairs. The Veterans Administration (VA) received approval from the Congress for 221 positions--205 more than the number approved by OMB. These positions were approved shortly after we issued a report pointing out shortcomings in the internal audit coverage of the Veterans Administration. Our report stated that VA's audit organization ranked last

among the major Federal agencies according to the ratio of auditors to employees and auditors to total dollars to be audited. 1/

OTHER ACTIONS THAT INCREASED
OR DECREASED AUDIT STAFF

Appendix V shows that not all of the positions approved by the Congress resulted in net additional staff for the audit organizations. For various reasons, agencies made additions and reductions which lowered the net increase to 754 instead of the 798 approved by the Congress.

Nine agencies added staff to the number of auditors approved by the Congress, as shown in the following chart.

<u>Agency</u>	<u>Approved by the Congress</u>	<u>Added by agency</u>	<u>Net gain</u>
Department of the Treasury	134	125	259
Department of Justice	-	12	12
Federal Bureau of Investigation	-	12	12
Environmental Protection Agency	37	11	48
Housing and Urban Development	22	8	30
Maritime Administration	2	8	10
Law Enforcement Assistance Administration	54	12	66
Federal Highway Administration	12	7	19
Community Services Administration	-	<u>1</u>	<u>1</u>
Total	<u>261</u>	<u>196</u>	<u>457</u>

1/"Greater Audit Coverage of Internal Financial Operations Is Needed," FGMSD-77-3, Nov. 19, 1976.

Generally, the additions to the audit staff resulted from reallocations of positions from other programs within the agency. Usually this was done in response to a need to audit a specific program or function. The Department of the Treasury, for example, said that 57 positions were reallocated to implement a new regulatory auditing program at the Bureau of Customs, and 38 positions were provided to perform more internal audits of the Internal Revenue Service. The Department of Justice said that 12 positions were transferred to the audit area in fiscal 1977 to perform reviews of their computer center. In addition, the Department's Federal Bureau of Investigation created the "Special Audit Staff" in fiscal 1977 through an internal realignment that placed 12 persons in that audit organization.

The Environmental Protection Agency's audit organization picked up its net increase of 11 from a large block of positions authorized by the Congress for use in the Agency's water program. The Department of Housing and Urban Development said that its additional 8 positions resulted from the transfer of the functions of the Federal Disaster Assistance Administration to the Department. The Maritime Administration said the 8 positions it added were transferred to the audit area to review a temporary program involving shipment of American grain to the Soviet Union.

The Law Enforcement Assistance Administration's addition of 12 positions is somewhat misleading. The agency diverted 39 positions away from the audit area over the 5-year period, but picked up 51 as a result of regional office closings in fiscal 1978. Thus, it had a net increase of 12 positions.

Ten agencies reduced the number of positions that were approved by the Congress for audit organizations; eight reduced their number substantially. The chart on the following page shows that 237 of the 312 additions approved by the Congress for these audit organizations were, in effect, diverted from them.

The Congress may have believed it had strengthened audit in these agencies by approving 312 positions; but, due to agency reductions, the audit organizations received a net increase of only 75.

<u>Agency</u>	<u>Approved by the Congress</u>	<u>Agency reductions</u>	<u>Net gain (loss)</u>
General Services Administration	20	(12)	8
Department of the Interior	19	(15)	4
Department of Labor	40	(60)	(20)
Department of Agriculture	58	(61)	(3)
Small Business Administration	32	(10)	22
National Aeronau- tics and Space Administration	-	(12)	(12)
Department of Transportation	-	(23)	(23)
Department of Health, Educa- tion, and Welfare	<u>143</u>	<u>(44)</u>	<u>99</u>
Total	<u>312</u>	<u>(237)</u>	<u>75</u>

Some of the reductions occurred when OMB lowered employment ceilings. The General Services Administration had 20 positions approved during the 5-year period, but lost 9 positions in fiscal 1975 because OMB lowered the agency's overall employment ceiling, and the agency, in turn, lowered the audit organization's ceiling. In fiscal 1978, three more positions were lost for the same reason. Therefore, the net gain for the 5-year period was only 8 positions. It should be noted that in fiscal 1979--which was subsequent to our 5-year review period--the agency requested 25 positions and received congressional approval for 50 to strengthen the audit staff's role in detecting fraud, abuse, and error.

Of the 15 positions lost by the Department of the Interior, 5 had been provided by the Department's bureaus to the audit area on a reimbursement basis for audit work performed.

Of the remainder, three were lost to HEW for audits of universities; two went to the Department of Energy; two went to the Department of Labor; and two were redirected internally to the ethics counselor function and one to investigations.

At the Department of Labor, where 60 positions were lost, 38 were removed in June 1974 when the Emergency Employment Act of 1971 expired; 20 approved by the Congress in fiscal 1978 were put into the Office of the Special Investigator.

The Department of Agriculture lost 61 positions over the 5-year period due to "ceiling changes to meet current needs other than through the budget process." The Department lost 20 in fiscal 1974; 9 in fiscal 1976; and 16 in each of fiscal 1977 and 1978.

The Small Business Administration lost 4 positions in fiscal 1975; gained 3 in fiscal 1976; and lost 9 in fiscal 1978 for a net reduction of 10 of the 32 positions approved by the Congress. The positions lost were due to employment ceiling reductions imposed on the agency by OMB.

The decrease in audit staff at the National Aeronautics and Space Administration occurred because the agency was undergoing an overall reduction in staff, and thus, requests for additional personnel were not even made by the audit organization, which had to absorb a decrease of 12 positions during the 5-year period.

The Department of Transportation's net reduction of 23 for the audit staff was balanced by a net increase of 22 positions in the Department's three other audit organizations--at the Federal Aviation, Federal Highway, and Urban Mass Transportation Administrations.

Finally, the 44 positions at HEW were diverted by the agency from audit to other organizational units within the Office of the Inspector General.

NEW INSPECTOR GENERAL OFFICES MAY BE
HAMPERED BY INSUFFICIENT STAFF

The audit units of the Inspector General Offices in the Federal Government may not have the staff resources they believe necessary to effectively carry out their mission. This point is beginning to be made in the semiannual reports to the Congress required of Inspector General Offices. In his March 31, 1979, report, the Inspector General at the Department of

Energy called staffing for his office "a critical problem." He said,

"We do not have the resources needed to launch investigative initiatives in which we search for and ferret out fraud and abuse in areas where we suspect that wrongdoing may be going on."

The March 31, 1979, report of the Inspector General of HEW called the audit agency the "backbone of the Office of the Inspector General" and said that the disparity between audit resources and audit workload continues to be a matter of great concern. The report said that the Inspector General's Office was authorized only enough resources to perform approximately 72 percent of the audit effort deemed necessary, and as a result, it had to further postpone covering areas that have received little or no recent audit attention.

OMB HAS NOT PROVIDED GUIDANCE ON
AUDIT STAFFING TO FEDERAL AGENCIES

This is not our first report discussing problems that Federal agencies have experienced in obtaining additional audit staff. We issued a report to the Congress in November 1976 ^{1/} pointing out that some agencies lacked an internal audit capability, others had staffs which were too small to provide adequate audit coverage, and some were emphasizing audits of Federal assistance programs to such an extent that their internal audit coverage was inadequate. To correct these deficiencies we recommended that OMB develop guidelines to assist Federal agency management in determining the appropriateness of the size of its audit staff.

In his reply to that report, the Deputy Director of OMB said that the audit plans required of Federal audit organizations by Federal Management Circular 73-2 (now Circular A-73) would provide sufficient information to make the decisions implicit in our recommendation. He also said that the decision on resource levels and their application must remain with agency management, subject to OMB review, since the requirements for audit must be considered in the context of total staffing needs and priorities of the agency.

^{1/}"An Overview of Federal Internal Audit," FGMSD-76-50, Nov. 29, 1976.

We disagreed with the OMB Deputy Director's comments because we had found that virtually every Federal audit organization prepared an audit plan in accordance with Federal Management Circular 73-2, and that even when such plans indicated that substantial increases in personnel were needed to perform the required audits set forth in the plan, agency management generally did not respond to this information by increasing audit staff sizes.

In February 1977 the Chairman of the House Committee on Government Operations wrote to the Director of OMB suggesting that he might wish to reevaluate OMB's position on our recommendation in view of President Carter's efforts to bring economy and efficiency to Government which, he said, could not be accomplished without adequate audit capability.

The OMB Director replied on March 22, 1977, that he agreed that the President's efforts to bring economy and efficiency to Government required adequate audit capability and that good audits are necessary to uncover waste and inefficiency and to assure the public that their tax dollars are being spent for the purposes intended. He said that since OMB's original response to our recommendation, the Office had become aware that we were undertaking a comprehensive review of internal audit operations in all the major departments and agencies. The OMB Director said that this work may give OMB a basis for improving the guidance in Federal Management Circular 73-2 and for working individually with departments and agencies to assist them in deciding upon the appropriate level of audit staffing, and the appropriate mix between internal and external audit.

In the interim between the OMB Director's March 1977 comments and this report, we conducted more than 20 reviews involving Federal internal audit operations that resulted in reports on such topics as staffing shortages within the Defense Audit Service; the need for additional audit coverage in the National Aeronautics and Space Administration; the lack of computer auditing in the executive departments; and the need for better followup on audit findings.

CONCLUSIONS AND RECOMMENDATIONS

The problems associated with obtaining sufficient audit staff that we disclosed in our November 1976 report persist today. Agency audit organizations have frequently been unsuccessful in obtaining additional resources in the past 5 years. This problem is now hampering the efforts of two Offices of Inspector General in their reviews of fraud and abuse in

Government, and we believe it will create problems for many of the other Inspector General Offices established by law in October 1978.

Both the agencies and OMB have been responsible for keeping the staffing levels of Federal audit organizations at relatively low levels. We recognize the need to keep Government-wide resources at a reasonable level. However, as we pointed out in a report to the Congress last year, program administration can be weakened by too few as well as too many employees. That report stated that the Congress should carefully assess the impact of personnel ceilings and cutbacks if it is to avoid reducing staff at the expense of effectively administered programs. 1/

While we fully support the goal of an efficient, streamlined work force, we believe that Federal agencies and OMB should consider that audit organizations, including those within Offices of Inspector General, often produce savings to the Government that exceed the cost of their operation.

We believe that with this report and the other reports on internal auditing we have issued in the past 2 years, OMB now has sufficient detailed information on patterns of audit staffing to develop the guidance needed by Federal agencies in this area. Accordingly, we repeat our recommendation of November 1976 to the Director of the Office of Management and Budget. OMB should develop guidelines to assist Federal agency management in determining the appropriateness of the size of their audit staffs. These guidelines should also address the question of the division of efforts between external and internal audits. We would be pleased to provide information we have to OMB personnel to help develop these guidelines.

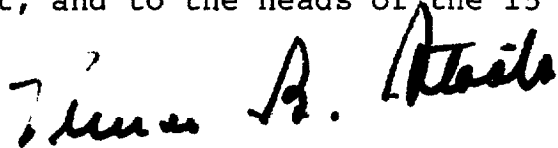
Since this recommendation is simply a reaffirmation of one made previously, we did not obtain the views of the Office of Management and Budget on this report. However, during an informal discussion of the report with a cognizant OMB representative we were advised that OMB would be willing, with the assistance of our Office, to explore the feasibility of developing criteria for audit staffing guidelines.

We also recommend that the Congress inquire about the adequacy and effectiveness of Federal internal audit staffs at agency oversight and appropriation hearings.

1/"Personnel Restrictions and Cutbacks in Executive Agencies: Need for Caution," FPCD-77-85, Feb. 9, 1978.

B-160759

Copies of this report are being sent to the Director,
Office of Management and Budget, and to the heads of the 15
agencies reviewed.

A handwritten signature in black ink, reading "Thomas A. Starks". The signature is written in a cursive style with a large, prominent initial 'T'.

Comptroller General
of the United States

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ABBREVIATIONS

CSA	Community Services Administration
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FBI	Federal Bureau of Investigation
GAO	General Accounting Office
GSA	General Services Administration
FHWA	Federal Highway Administration
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
LEAA	Law Enforcement Assistance Administration
NASA	National Aeronautics and Space Administration
SBA	Small Business Administration
UMTA	Urban Mass Transportation Administration
VA	Veterans Administration

SUMMARY OF STAFF CHANGESFY 1974 THROUGH 1978

<u>Audit organization</u>	<u>Audit Staff</u>		
	<u>Beginning of FY 74</u>	<u>End of FY 78</u>	<u>Net gain or (loss)</u>
Treasury	549	808	259
VA	75	294	219
HEW	801	900	99
LEAA (note a)	59	125	66
EPA	49	97	48
HUD	333	363	30
SBA	66	88	22
FHWA (note b)	209	228	19
Justice (note a)	50	62	12
FBI (note a)	-	12	12
Maritime (note c)	32	42	10
GSA	100	108	8
Interior	130	134	4
UMTA (note b)	13	17	4
CSA (external)	25	26	1
CSA (internal)	5	5	-
Commerce (note c)	97	97	-
FAA (note b)	49	48	(1)
Agriculture	438	435	(3)
NASA	70	58	(12)
Labor	144	124	(20)
Transportation (note b)	<u>105</u>	<u>82</u>	<u>(23)</u>
Total	<u>3,399</u>	<u>4,153</u>	<u>754</u>

a/The Federal Bureau of Investigation and the Law Enforcement Assistance Administration are part of the Department of Justice.

b/The Department of Transportation had four audit organizations. The one shown above as "Transportation" was the internal audit organization. The three shown as FHWA, UMTA, and FAA audited grants and contracts for elements within the Department. The four groups have been consolidated into a new Office of Inspector General.

c/The Maritime Administration is part of the Department of Commerce.

AGENCIES' APPROVAL OF
AUDITORS' REQUESTS FOR STAFF
FY 1974 THROUGH 1978

<u>Audit organization</u>	<u>Auditors requested</u>	<u>Agency approved</u>	<u>Percentage</u>
Treasury	749	305	41
VA	38	16	42
HEW	830	454	55
LEAA	160	71	44
EPA	289	42	15
HUD	68	43	63
SBA	134	57	43
FHWA	43	6	14
Justice	14	9	64
FBI	-	-	-
Maritime	25	16	64
GSA	78	58	74
Interior	139	15	11
UMTA	96	4	4
CSA (external)	27	-	-
CSA (internal)	8	-	-
Commerce	38	-	-
FAA	57	-	-
Agriculture	148	104	70
NASA	-	-	-
Labor	140	40	29
Transportation	<u>3</u>	<u>2</u>	67
Total	<u>3,084</u>	<u>1,242</u>	40

OMB'S APPROVAL OF
AGENCIES' REQUESTS FOR AUDITORS
FY 1974 THROUGH 1978

<u>Audit organization</u>	<u>Agency approved</u>	<u>OMB approved</u>	<u>Percentage</u>
Treasury	305	150	49
VA	16	16	100
HEW	454	161	35
LEAA	71	54	76
EPA	42	37	88
HUD	43	32	74
SBA	57	32	56
FHWA	6	-	-
Justice	9	5	56
FBI	-	-	-
Maritime	16	2	13
GSA	58	38	66
Interior	15	9	60
UMTA	4	4	100
CSA (external)	-	-	-
CSA (internal)	-	-	-
Commerce	-	-	-
FAA	-	-	-
Agriculture	104	58	56
NASA	-	-	-
Labor	40	40	100
Transportation	2	-	-
Total	<u>1,242</u>	<u>638</u>	51

CONGRESSIONAL APPROVAL OF
OMB'S ALLOWANCE OF AUDITORS
FY 1974 THROUGH 1978

<u>Audit organization</u>	<u>OMB approved</u>	<u>Congress approved</u>	<u>Percentage</u>
Treasury	150	134	89
VA	16	221	1,381
HEW	161	143	89
LEAA	54	54	100
EPA	37	37	100
HUD	32	22	69
SBA	32	32	100
FHWA	-	12	-
Justice	5	-	-
FBI	-	-	-
Maritime	2	2	100
GSA	38	20	53
Interior	9	19	211
UMTA	4	4	100
CSA (external)	-	-	-
CSA (internal)	-	-	-
Commerce	-	-	-
FAA	-	-	-
Agriculture	58	58	100
NASA	-	-	-
Labor	40	40	100
Transportation	-	-	-
Total	<u>638</u>	<u>798</u>	125

AGENCY ACTIONS SUBSEQUENT
TO CONGRESSIONAL APPROVAL
FY 1974 THROUGH 1978

<u>Audit organization</u>	<u>Congress approved</u>	<u>Net adjustments by agency</u>	<u>Total</u>
Treasury	134	125	259
VA	221	(2)	219
HEW	143	(44)	99
LEAA	54	12	66
EPA	37	11	48
HUD	22	8	30
SBA	32	(10)	22
FHWA	12	7	19
Justice	-	12	12
FBI	-	12	12
Maritime	2	8	10
GSA	20	(12)	8
Interior	19	(15)	4
UMTA	4	-	4
CSA (external)	-	1	1
CSA (internal)	-	-	-
Commerce	-	-	-
FAA	-	(1)	(1)
Agriculture	58	(61)	(3)
NASA	-	(12)	(12)
Labor	40	(60)	(20)
Transportation	-	(23)	(23)
Total	<u>798</u>	<u>(44)</u>	<u>754</u>

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