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THE AUDIT SURVEY

A Key Step In Auditing Government Programs



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THE AUDIT SURVEY—WHAT IS IT?

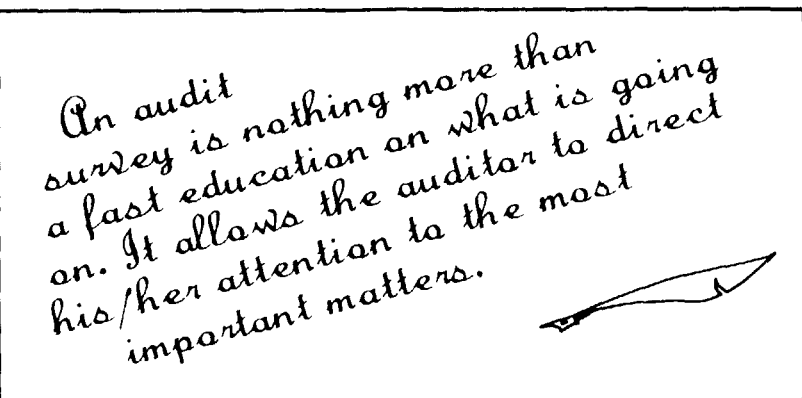
Put simply, a survey—the first step in an audit—is an educational process. It is expected to be a relatively fast process for gathering information, without detailed verification, on the activity or program being examined. The main purposes are:

- Identifying problem areas warranting additional review.
- Obtaining information for use in planning and performing the detailed review work to follow.

A survey permits an orderly approach to planning and carrying out audit work, and thus it can be an effective tool for applying scarce auditing resources where they will do the most good.

While having a common purpose, the focus of survey work will differ for each type of audit. In an audit concerned with economy and efficiency, survey efforts will be directed at locating areas where it appears that time, money and other valuable resources can be saved. In an audit concerned with program results, survey efforts may primarily be devoted to identifying program goals and determining if information necessary for evaluating the results is available. (This is because in many cases goals are not established and results are not measured.)

The scope of work and time requirements for each survey will vary also. Contributing factors are the auditor's training and experience, his or her knowledge of the areas being examined, the type of audit being performed, and whether the survey is a recurring or followup assignment. Time requirements will also be influenced by the size and complexity of the activities or programs being examined, and by the geographic dispersion of agency operations and of organizations performing the work.



TYPICAL SURVEY APPROACH

The typical approach in making a survey is first to make a broad appraisal of what an agency does and how it operates. Then the auditor narrows the survey scope by identifying some areas—activities and programs—that appear to warrant additional evaluation. For each area selected, practical information would normally be obtained on

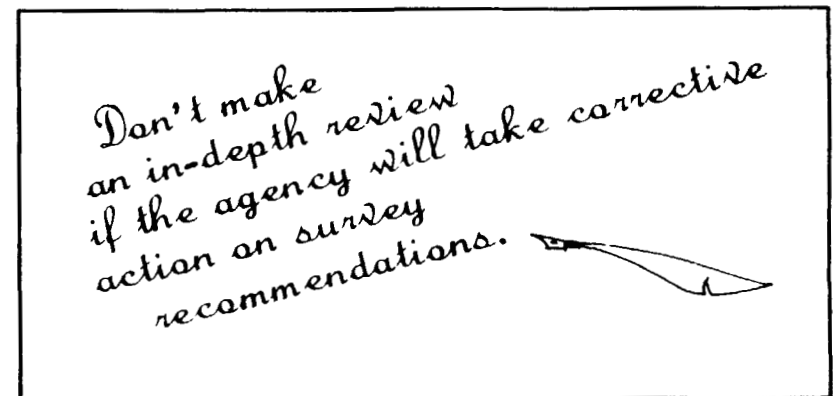
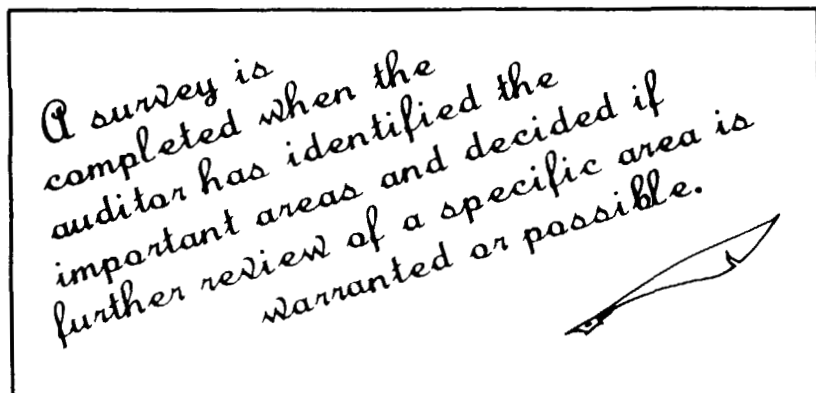
- how the operations are actually carried out,
- how necessary or useful the various work steps are,
- the process used to monitor results, and
- whether the work satisfies legal requirements, established goals, and common sense practices.

Continual analysis of the information obtained should allow the auditor to decide how much survey work is needed and whether a detailed review of a specific area is warranted or possible.

At the completion of a survey, the auditor should have gained enough knowledge to clearly identify important issues and problem areas and to decide if and where further investigation is needed. When in-depth work is to be done, the auditor should have an idea of what he or she expects to report. Enough information should also have been gathered to prepare a systematic plan for conducting the review. Such a plan is commonly referred to as an “audit program.”

Sometimes enough information will be obtained during a survey to recommend improvements immediately. In such cases, the auditor's preliminary observations should be discussed with the responsible manager before a plan for performing a detailed review is developed. If agency officials are satisfied with the auditor's analysis and are willing to act on the recommendations, the survey results normally should be reported as final.

During the survey, the auditor may discover a situation—for example, political turmoil, pending legislation, a major reorganization, a planned move, or an employee strike—that could seriously hamper his or her efforts. The auditor should assess the possible effects of the situation and decide whether the survey should be postponed.



SURVEY INFORMATION NEEDS

As one would expect, the kind of information to be obtained in a survey will vary, depending on the type, purpose, and scope of audit to be made. Nonetheless, there are a good many similarities. Generally speaking, the information an auditor needs can be broadly grouped into four categories:

- General background information on the agency and the programs and activities it administers.
- Extent and nature of the agency's authority and responsibility.
- Goals and objectives established by legislation and by the agency.
- Preliminary observations on the extent desired goals are being achieved.

BACKGROUND INFORMATION

A primary requirement is to obtain general working information on all important aspects of the agency, program, or activity being examined. The auditor needs to obtain a working knowledge of the programs and activities the agency administers, its organization and staffing, its operating methods, and the provisions for financing and amounts being spent. This information will give the auditor a perspective on important programs or activities and on key features or areas which appear difficult to control or susceptible to abuse or laxity, thus narrowing the scope of survey work.

This part of the survey should be done quickly. It should not involve a laborious reading of manuals and other materials. If the survey is a recurring or followup assignment and the auditor is familiar with an agency's operations, very little new background information may be needed.

Organization

Preliminary information on how the agency is organized and staffed to carry out the programs and activities being examined should include:

- Divisions of duties and responsibilities.
- Nature, sizes, and locations of field offices and grantee organizations.
- Number of employees in each organizational segment and location.

Organization charts and statements of function are usually good sources for such material.

Financing

Knowledge of how an activity or program was intended to be financed and the amounts being spent helps the auditor understand an agency's financial operations, identify areas showing the biggest expenditures, and evaluate compliance with legal requirements. Information to be compiled might include:

- The appropriations under which the programs and activities being examined are financed and the legislative committees that review budget requests.
- Budget data submitted to legislators.
- Year-by-year tabulations of appropriations and income from revenue-producing activities.
- Borrowing authority.
- The amount, types, cost, and location of assets.
- Data on operation costs.

The amount of historical financial data to be obtained is a matter of judgment in each survey.

Operating methods

The auditor must of course gain a general understanding of how the agency conducts its work and keeps informed about how well work is done. Information to be collected might include:

- General policies established by law and top management.
- A general description of operating methods.
- The agency's process for setting goals and monitoring performance.
- A description of important problems and areas having special interest to legislators and the public.

AUTHORITY

The program or activity being examined had to be authorized by someone. So one of the first steps in examining a specific program or activity is to gain an understanding of the agency's basic authorities. The auditor needs to be concerned with both the legal authority, as

The purpose and scope of a survey, along with the auditor's knowledge about the areas being examined, will determine the informational needs.

established by legislative bodies and interpreted by the judicial branch, and the administrative authority originating within the various levels of the executive branch. Such an understanding is needed so that the auditor will recognize failure of the audited organization to comply with restrictions imposed upon it or to do what it is directed to do. Further, if following a law or regulation hinders achievement of program goals, or unnecessarily increases costs without increasing effectiveness, the auditor should report this.

Information on legal authority can be found in laws, legislative history, judicial decisions, and records of judicial hearings. Sometimes the auditor may need a lawyer's help to clarify the meaning and intent of the law.

Information on administrative authority can be found in executive orders, resolutions, management directives, or similar sources. In government, such authority will usually be written. If it is oral, the auditor should be sure to interview both the person giving the order and the one receiving it, to be sure that both parties agree on the authority given.

GOALS AND OBJECTIVES

Goals encompass the objectives management intends or is expected to achieve and the criteria—standards and performance indicators—used to measure its progress in achieving them. Thus a primary part of the survey is to define the goals of the programs or activities being examined.

Because goals incorporate the criteria by which auditors determine whether a potential weakness or deficiency exists, the goals of the programs or activities to be examined should be clearly understood before the auditor proceeds to the review phase. If the goals cannot be satisfactorily established, further detailed review is futile.

Information on goals for a program or activity may be obtained from various sources: in laws, executive orders, regulations, policies imposed by an outside agency, or self-imposed policies or procedures. Useful information on goals may often be found in the legislative history of a program and in special studies. Goals may also be in the form of accepted management procedures and common sense practices.

In audits of economy and efficiency, goals are generally implied. An organization is expected to do its job efficiently and thus keep the cost of performing its work as low as possible without sacrificing effective performance. Since conserving authorized resources becomes the objective, the goal is represented by the standard applied to measure the reasonableness of the resources used. In establishing standards to measure efficiency, an auditor may often get realistic standards from other organizations doing similar work.

For program results audits, goals represent what the authorizing body intends to accomplish. Information on program objectives and performance indicators is critical, because one primary purpose in evaluating program results is to report on the extent the intended goals have been achieved.

Many times programs will have more than one goal and alternative ways to achieve them. Other agencies also may have programs with similar objectives. During the survey, the auditor must decide whether all or only some of the goals, approaches, and related programs are to be evaluated.

*Poring
over agency procedures
is less important than observing
operations and talking
to people.*

*The auditor
needs information on an
agency's authority to be sure
the program or activity being
examined is conducted within the
bounds of that authority.*

When goals are unclear

Defining goals can be quite difficult. Objectives are often stated imprecisely, and quantitative indicators or standards for measuring performance are often not established. Sometimes basic data for measuring performance will not have been collected either.

Defining the objectives for measuring program results can be particularly difficult. This difficulty can often be traced to one or more of the following factors.

- The enabling legislation and legislative history do not define the program's objectives clearly.
- Stated program objectives are not readily understandable by those responsible for carrying out the programs, or the objectives are confusing because they conflict with those of other programs.
- Sociological factors are involved which have not been studied, researched, and analyzed to the extent necessary for setting definitive objectives.
- The real program objectives have changed, even though the stated objectives have not.

To make a useful review of program results, the auditor must identify program objectives. It is essential to clearly understand and validate them, usually in discussions with agency officials and legislative committees. If objectives cannot be satisfactorily validated, the auditor may conclude that further work in evaluating program effectiveness would not be worthwhile and may decide to simply report that program goals are unclear and need to be clarified.

The auditor may do considerable work to identify program goals that have evolved but are not clearly recorded in writing. In some cases it may be possible to borrow goals from similar programs or activities. However, it is not the auditor's job to set goals. Accordingly, the auditor should be careful to avoid creating goals if those that exist are too vague to be useful.

Defining the goals is important because they include the criteria auditors need to determine whether improvements can be made.

EXTENT GOALS ARE ACHIEVED

The prime objective of a survey is to make observations and decide whether more work or detailed review of a specific area is warranted or possible. In making this decision, the auditor needs to apply all the knowledge and information obtained during the survey.

The basic idea is to try to identify a condition where it appears that goals are not being fully achieved, or where it's unclear what the goals are or what results are being accomplished. Whatever the condition, the auditor should normally concentrate on identifying important areas and issues of current concern where it looks like costs can be reduced or program results improved.

One way to identify problem areas is to look for weaknesses in management controls that could lead to inefficient operations and impair program results. Because there commonly are a lot of management controls and procedures, and because the absence of good controls does not necessarily result in reduced economy or effectiveness, this can take a lot of time without revealing any important deficiencies. GAO's experience has been that it is more productive to first look for problem areas—areas where it appears that work is not being done efficiently or economically or desired program results are not being fully achieved. The methods for doing this are discussed in the following section. Once a problem area is identified, we examine management procedures and controls to find out why performance is not up to par and what corrective action management can take. Time-consuming efforts to fully evaluate management procedures and controls and confirm the existence of deficiencies should be left to the review phase and should be concentrated on those areas where problems have been identified.

Auditors have the embryos of a finding when they have information that

- Goals are not established.
- Results are not measured.
- Goals are not fully achieved.

WAYS TO OBTAIN SURVEY INFORMATION

A number of approaches may be used in a survey to obtain information and identify areas warranting more detailed attention—that is, areas in which inefficient practices exist or established goals are not being fulfilled. These approaches will vary depending on a host of factors, including the auditor's imagination, ingenuity, and educated curiosity. The following methods are common to most surveys.

DISCUSSIONS WITH AGENCY OFFICIALS

A first step in a survey is to contact top management officials. This is important for both independent external auditors and internal auditors. Managers should be told about the auditor's responsibilities, general audit objectives, and methods of operation. The same should be done at any field locations visited.

Sometimes valuable leads can be obtained from agency officials. They may identify troublesome areas or suggest that the auditor look into matters that concern them but on which they lack reliable information. Contact with the technical personnel who are directly involved in operations is also helpful in getting a realistic understanding of agency operations.

Obtaining useful information from agency personnel depends on the auditor's reputation for independent and constructive inquiry. If the auditor is feared because of overcritical reporting in the past, officials may not be cooperative.

INTERVIEWS WITH OTHERS

Interviews with people directly affected by a program, such as the intended beneficiaries, and with other concerned or knowledgeable persons outside the agency can provide valuable help in defining program goals and in finding program weaknesses. The auditor should be sure to contact appropriate legislative committees to learn of any interests and concerns they have. The auditor should also become familiar with problem areas that have been discussed or questioned in legislative hearings.

Using questionnaires

Although interviews can provide the auditor with valuable data for evaluating a program's impact, contacting many people can be extremely time consuming and costly. Therefore, numerous interviews generally should not be conducted during the survey; instead, the auditor should consider using questionnaires.

If a questionnaire is to be used later in the detailed audit, the auditor might test the questionnaire during the survey by interviewing a few people to get an idea of the expected responses and potential problems in collating and evaluating replies.

PHYSICAL INSPECTION

In most cases, onsite observations are indispensable in helping the auditor gain a quick working knowledge of an organization's operations and environment. Onsite observations are invaluable in a survey concerned with economy and efficiency.

Good judgment is needed in selecting people to interview. Valuable information can be obtained by talking with knowledgeable people, but contacting numerous people can be time consuming.

Physical observation can help the auditor

- Gain knowledge quickly.
- Identify signs of waste.
- Pinpoint weak areas warranting further inquiry.

The auditor should be alert to signs of waste or ineffectiveness that indicate weaknesses warranting further inquiry. Backlogs, excess equipment or material, idle personnel, extensive repair or rework on production operations, outdated work methods and machines, and poor working conditions are examples.

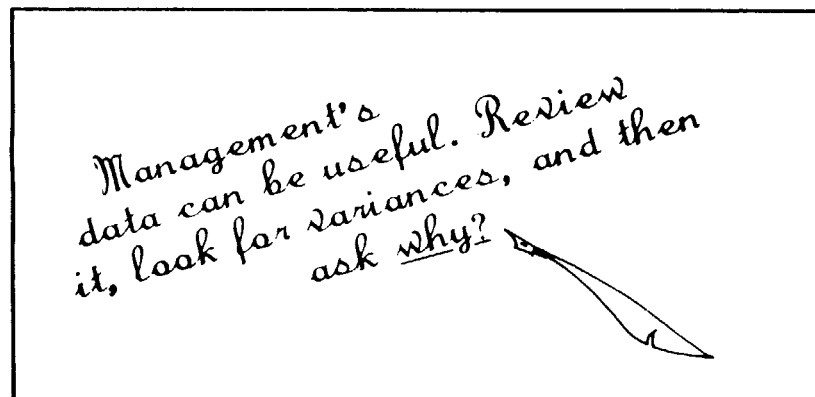
The auditor does not have to be an expert in a specific field—such as industrial engineering or social science—to observe an activity and ask questions that lead to sensible conclusions. Often all that is needed is some common sense and an inquisitive mind that asks, “Is there a better way to do this?” or “Are these the desired results?”

REVIEWS OF MANAGEMENT'S REPORTS

The same data that is useful to management in doing its job is often useful to the auditor. Information available to management, such as budgets, operating statements, department cost reports, etc., can provide insights into how well goals are being achieved. The auditor needs to analyze reports that make comparisons, highlight variances, and show, among other things:

- How revenues and expenditures and obligations stand in relation to budgeted amounts.
- How work is progressing in relation to time and cost objectives.
- Whether operations are becoming more efficient.
- Whether desired program objectives are being achieved.
- How program benefits relate to costs.

If managers do not receive such information, the auditor should ask how they control their operations. This line of inquiry may point to a lack of effective management control and other administrative weaknesses.



REVIEWS OF STUDIES AND AUDIT REPORTS

A good information source in any organization is its file of studies and audit reports. Whether made internally or by outsiders, studies often surface good ideas that for some reason were not put into practice. External auditors should consider internal audit work in deciding the scope of surveys and audits. Full use of information already developed by others can help reduce survey work and thus save time. A precaution—the auditor should establish the reliability of work done by others before accepting it as valid.

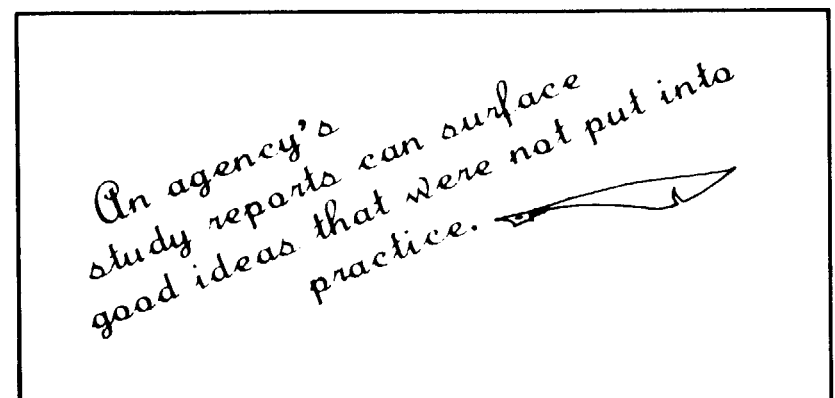
During the survey the auditor should inventory past, current, and planned management studies and internal audit reports and work plans. Studies relating to the establishment of program goals and the measurement of progress in achieving them are of particular value.

TEST TRANSACTIONS

A useful way to obtain practical insight into operations, efficiency, and results is to trace a few specific work activities from beginning to end. This enables the auditor to quickly determine the practices actually followed and is far more satisfactory than reviewing agency manuals and eventually examining selected activities to see if the prescribed procedures are being followed. In a survey this would usually be done by actual observation and discussion with agency officials and others involved in the work process.

FLOW CHARTS

A flow chart can be a great help in capsulizing the information obtained in a survey. It can enable the auditor to visualize and easily understand the work process by presenting a graphic representation of the flow of work and the related management control structure. A flow chart is a particularly valuable tool for comparing the present system with a proposed system.



SUMMARIZING SURVEY RESULTS

Timely communication of survey results is perhaps the most essential part of the audit survey. What good are audit surveys if no action is taken on matters requiring attention?

To facilitate communication and provide a record for future reference, it is a good idea to prepare a summary at the completion of a survey. This summary should explain what was done and should briefly present the auditor's observations and recommendations for further work. When survey results dictate further review work, the auditor should point out:

- The problems and rationale for pursuing them in more depth.
- Pertinent information developed during the survey phase.
- Suggested work steps and the reasons for them.
- Preliminary estimates of time and resource requirements—particularly for personnel.
- Target date for completing the review and reporting phases.

The pamphlet "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" is for sale by the Superintendent of Documents, stock number 020-000-00205-1.*

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