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Financial Audits in Federal Executive Branch Agencies.
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Report to Sen. Thomas F. Eagleton, Chairman, Senate Committee on Governmental Affairs: Efficiency and the District of Columbia Subcommittee; by Robert F. Keller, Acting Comptroller General.

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Congressional Relevance: Senate Committee on Governmental Affairs: Efficiency and the District of Columbia Subcommittee. Sen. Thomas F. Eagleton.

Authority: Accounting and Auditing Act of 1950.

Questionnaires were sent to 607 Federal governmental units to obtain information regarding financial audits, and responses were analyzed and summarized. Findings/Conclusions: One hundred and thirty-three units, with annual funding in excess of \$20 billion, said they did not receive financial audits of their accounts and records during fiscal years 1974 through 1976, but 58 of these units did receive nonfinancial audits. The negative responses do not necessarily mean that all of the units' funds had not been audited since many units serve as conduits for the flow of Federal assistance funds, and funds are audited at the State or local level. The most frequently reported questionable practices revealed by the audits were inadequacies in: internal control, records, accounting procedures, inventory controls, and compliance with laws and regulations. About 86% of the units said some form of followup action was taken to remedy deficiencies. About half of the 44 units which received audit services from private firms used noncompetitive methods to select firms. GAO has issued guidance to agencies on the performance of internal audits and the acquisition of management advisory services. It does not issue guidelines on the use of competitive bids for audit services but does have oversight responsibility. Improvements have been made in financial auditing in several agencies as a result of GAO reviews. (HTW)

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REPORT BY THE
Comptroller General
OF THE UNITED STATES

RESTRICTED

**Financial Audits In Federal
Executive Branch Agencies**

Many Federal organizational units are not receiving annual financial audits of their accounts and records. One hundred and thirty-three units, with annual funding in excess of \$20 billion, told GAO they had not received a financial audit during fiscal years 1974 through 1976, although 58 of these units reported they did receive nonfinancial audits.

However, negative responses by the units do not necessarily mean that all of the units' funds have not been audited, since many units serve as conduits for the flow of Federal assistance funds to individuals or State and local governments. Funds often are audited at State or local levels, while the Federal disbursing unit, itself, is not audited.



FGMSD-78-36
JUNE 6, 1978



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

B-160759

The Honorable Thomas F. Eagleton
Chairman, Subcommittee on Governmental
Efficiency and the District
of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

In a May 25, 1977, request, Senator Lee Metcalf, then Chairman of the Subcommittee on Reports, Accounting and Management, Senate Committee on Governmental Affairs, asked us to obtain information regarding financial audits of each organizational unit in the executive branch of the Federal Government, as listed in the April 1977 inventory of those units prepared by the President's Reorganization Project. (See app. I.) Specifically, Senator Metcalf wanted to know who audited each unit during fiscal years 1974 through 1976, what audit standards were followed, what questionable practices were revealed, to whom the audit results were reported, and what followup actions were taken. Where a private firm performed the audit, he asked for the name of the firm and the reason for using it, the cost of the audit, the cost and nature of other contractual or consulting relationships between the firm and the agency, and the method of selecting the firm.

The Chairman asked if we evaluated the audit work performed and if we issued guidelines to agencies regarding performance of audits and management advisory services. He also asked what guidelines we provide agencies on the use of competitive bids and consideration of small- and medium-sized firms in selection of outside auditors, and what our oversight responsibility is to assure that guidelines regarding competitive bidding are followed.

To comply with the first part of the Chairman's request, we sent questionnaires to 607 units in cabinet level departments and independent executive agencies, international organizations, Government corporations, and other committees, commissions, and boards. (See app. II.) We received 489 responses, but 29 said the unit was no longer in existence and 42 said the unit received no Federal funds. The latter

were primarily interagency or advisory committees, commissions, or boards. Therefore, we analyzed responses from 418 units. A summary of this analysis as it relates to each of the Chairman's concerns follows.

SUMMARY OF FINDINGS

One hundred and thirty-three units said they did not receive a financial audit of their accounts and records during fiscal years 1974 through 1976. (See app. III.) However, 58 of these units said they did receive nonfinancial audits. The 133 units--representing almost one-third of the 418 units responding--received funds in excess of \$20 billion in fiscal year 1977; but, it would be incorrect to conclude that all funds were not audited. Many units serve as a conduit for Federal assistance funds to individuals or to State and local governments, and the funds are audited at that level by Federal external auditors, State or local auditors, or public accounting firms.

The 285 units that received financial audits in one or more of the 3 fiscal years said the audits generally were performed by internal auditors, GAO, or public accounting firms. Internal auditors were mentioned on 75 percent of the affirmative responses, GAO on 26 percent, and public accounting firms on 15 percent.

About two-thirds of the audited units that answered our question on what standards were followed said the auditors followed generally accepted auditing standards (those prescribed by the American Institute of Certified Public Accountants) and one-third said the Comptroller General's standards were followed. The two sets of standards are virtually identical for financial audits, but the Comptroller General's standards expand the scope of auditing beyond financial examinations to include audits for compliance, efficiency, economy, and effectiveness of programs.

The most frequently reported questionable practices revealed by the audits were inadequacies in (1) internal control, (2) records, (3) accounting procedures, (4) inventory controls, and (5) compliance with laws and regulations. These audit results were most often reported to management of the unit or to management of the unit's parent organization. The audit reports were frequently sent to congressional committees, GAO, and the Office of Management and Budget, but usually on request rather than routinely. About 86 percent of the units said some form of followup action was taken to remedy the deficiencies reported by auditors.

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The remainder said the deficiencies reported were considered too insignificant to take corrective action.

Forty-four units received audit services from private firms, for which they spent \$2.9 million. About half of these units used noncompetitive methods to select the firm. A desire for continuity, satisfaction with prior audits, time constraints, and a belief that expected costs were not high enough to merit formal competitive selection procedures were cited as the primary reasons for using noncompetitive methods. Fifteen of the 44 units had other contractual or consulting relationships with the accounting firms and spent an additional \$4.8 million for these services. Appendix IV shows the units that received audits from private firms, the cost of the audits, and the nature and cost of other services received.

Since we frequently rely on the work of internal auditors in our own reviews, we must be reasonably certain that agency internal auditors are conducting appropriate reviews and testing agency systems of management control, including accounting and financial operations. GAO's policy with regard to evaluation of audit work conducted in Federal agencies calls for performance of enough review work to enable us to assess the adequacy of audit coverage. Our evaluations of internal audit operations have resulted in more than 30 reports to heads of agencies and the Congress in the past 3 years.

We have issued guidance to agencies on the performance of internal audits and the acquisition of management advisory services, particularly financial management systems acquired from accounting or management consulting firms. The audit guidance is contained in a booklet entitled "Internal Auditing in Federal Agencies" issued in 1957 and updated in 1968 and 1974, and in our "Standards for Audits of Governmental Organizations, Programs, Activities & Functions" issued in 1972. Guidance on acquiring management advisory services is contained in a booklet entitled "Lessons Learned About Acquiring Financial Management & Other Information Systems" issued in August 1976.

We do not issue guidelines to agencies on the use of competitive bids for audit services or otherwise. The General Services Administration carries out this function for civil agencies and the Under Secretary of Defense for Research and Engineering for defense agencies. We do exercise oversight responsibility in this area through audits of the procurement process. Appendix V is a digest of our recent report entitled "Competition for Negotiated Government

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Procurement Can and Should Be Improved" (PSAD-77-152, Sept. 15, 1977). However, there have been no recent reviews by our office specifically directed toward the use of competitive bids in the selection of outside auditors.

We have left the question of the size of the firm to be used when selecting outside auditors to the discretion of the selecting agency. Our guidance to agencies in selecting such auditors has been limited to the qualifications those auditors should possess when they are employed for assignments requiring an opinion on financial reports of governmental organizations. We have advised agencies that certified public accountants or public accountants licensed on or before December 31, 1970, should perform such audits.

MANY UNITS DID NOT RECEIVE
FINANCIAL AUDITS

Responses of executive branch units regarding whether they had received a financial audit in fiscal years 1974, 1975, or 1976 were as follows:

<u>Response</u>	<u>Units</u>
Yes	285
No (note a)	133
No longer in existence	29
No funds to audit	<u>42</u>
Total	<u>489</u>

- a/Fifty-eight of the 133 units said they received nonfinancial audits of economy and efficiency of operations or results of programs.

The 133 units that said their financial records and accounts were not audited during fiscal years 1974 through 1976 received funding in excess of \$20 billion in fiscal year 1977. Twenty-nine of the units had funding in excess of \$100 million as shown on the following pages.

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<u>Unit</u>	<u>FY 1977 funding</u> (millions)
<u>Department of Agriculture</u>	
Animal and Plant Health Inspection Service	\$ 323
Agricultural Research Service	283
Extension Service, Management Operations Staff	242
Agriculture Stabilization and Conservation Service	157
<u>Department of Defense</u>	
Defense Communication Agency	148
Defense Intelligence Agency	108
Defense Nuclear Agency	195
Defense Advanced Research Projects Agency	235
<u>Department of Health, Education, and Welfare</u>	
Rehabilitation Services Administration	902
Office of Libraries and Learning Resources	257
Bureau of Disability Insurance	354
Bureau of Hearings and Appeals	110
Bureau of Elementary and Secondary Education	2,722
Bureau of Health Insurance	610
Medical Services Administration	9,743
Administration for Public Services	2,746
<u>Department of the Interior</u>	
Bureau of Mines	134
Geological Survey	320
Fish and Wildlife Service	149
National Park Service	295
<u>Department of Justice</u>	
Drug Enforcement Administration	168
Law Enforcement Assistance Administration	753
<u>Department of Labor</u>	
Occupational Safety and Health Administration	130

Independent agencies and other

ACTION--including Peace Corps and VISTA	189
District of Columbia Government	381
Office of Research and Development--Environmental Protection Agency (EPA)	261
Office of Nuclear Regulatory Research, Nuclear Regulatory Commission (NRC)	119
National Endowment for the Arts	199
National Endowment for the Humanities	121

NEGATIVE RESPONSES SHOULD NOT
BE CONSTRUED AS MEANING
FUNDS WERE NOT AUDITED

It would be incorrect to conclude that all funds appropriated to the units that said they did not receive financial audits have not been audited. Many units serve as a conduit for Federal assistance funds which are provided to individuals or State or local governments, and the funds may be audited at that level. The following are examples of units that said they were not audited, but had at least some of their funds audited.

Medical Services Administration

The \$9.7 billion appropriated to the Medical Services Administration (now part of the Health Care Financing Administration) of the Department of Health, Education, and Welfare, in fiscal year 1977 was primarily used for the Medicaid program. The auditors of the Department of Health, Education, and Welfare review this program annually as part of their audits of State and local governmental units. Some areas they review include eligibility, duplicate payments, overuse of services, and the validity of reimbursement to providers of medical service to the patients. We have also been involved in audits of the Medicaid program.

Bureau of Elementary and Secondary Education

About \$2.3 of the \$2.7 billion in fiscal year 1977 funding for the Department of Health, Education, and Welfare's Bureau of Elementary and Secondary Education was for grants to some 14,000 local school districts to meet the special educational needs of educationally deprived children. The Department's audit agency, as with the Medical Services Administration, included this area as part of its audits of State and local governmental units. Financial controls and fund

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accountability are reviewed during these audits. We also reviewed the elementary and secondary education program, including the reading and bilingual education programs.

Law Enforcement Assistance Administration

More than 90 percent of the Justice Department's Law Enforcement Assistance Administration's funding is used for grants and contracts to State and local entities. The Agency has more than 60 auditors who perform "external" audits of those grants and contracts.

LACK OF INTERNAL FINANCIAL AUDIT
IS PARTLY ATTRIBUTABLE TO EMPHASIS
ON EXTERNAL AUDITING

The three examples cited above are representative of a recent trend in internal auditing in the Federal Government. Many agencies are spending most of their audit effort on so-called "external" audits of grants and contracts. As a result, some internal audit coverage, particularly financial coverage, has not been adequate. The trend toward more external auditing was pointed out in a report entitled "An Overview of Federal Internal Audit" (FGMSD-76-50, Nov. 29, 1976). The report stated that the Department of Health, Education, and Welfare spent 80 percent of its audit time on external audits; the Department of Housing and Urban Development, 64 percent; and the Department of Transportation, more than 70 percent.

Moreover, our recent reviews have pointed out that the amount of time spent on internal financial audits by Federal agencies is often not sufficient to provide adequate coverage of assets, liabilities, income, and expense of those agencies. In the past 2 years, we issued reports on the extent of internal financial auditing at the Departments of Labor, Agriculture, Justice, the Interior, and Housing and Urban Development, and the Veterans Administration and National Aeronautics and Space Administration. Most of these reports cited a need for more financial auditing. The Department of Labor and the Veterans' Administration have subsequently been authorized to add 40 and 205 auditors, respectively, to their audit organizations. These additions should greatly improve their audit capability.

**AUDIT PERFORMANCE, STANDARDS,
FINDINGS, REPORTING, AND FOLLOWUP**

The 285 units that received financial audits had a total of 367 individual audits. These audits were performed by internal auditors, GAO, public accountants, and others as shown below.

<u>Audit organization</u>	<u>Audits</u>
Internal auditors	214
GAO	72
Public accountants	44
Other	<u>37</u>
Total	<u>367</u>

Based on the responses, about 75 percent of the units were audited by internal auditors, 26 percent by GAO, 15 percent by public accounting firms, and 13 percent by other auditors. These latter audits were usually performed by another agency, such as the General Services Administration, which by law had audit responsibility for a Presidential commission, committee, or board.

About two-thirds of the audited units that answered our question on what standards were followed reported that generally accepted auditing standards were followed by the auditors, and one-third said the Comptroller General's standards were used. Less than half of the audited units responded to the question. The two sets of standards are identical for financial audit work, but the GAO standards provide for a broader scope. The GAO standards require expansion of the scope of auditing beyond examinations of the fairness of financial statement presentation to include audits for compliance, efficiency, economy, and effectiveness of programs.

Questionable practices reported by the auditors dealt with inadequacies in the following areas.

<u>Area</u>	<u>Percent</u>
Internal control	41
Records	33
Accounting procedures	31
Inventory control	20
Compliance with laws and regulations	18
Imprest funds	16
Disbursements	9
Internal audit	7
Excess funds on hand	7
Fraud, theft, or other criminal activity	6
Reconciliation of cash with Treasury balance	3
Other areas	12

About 28 percent of the units said auditors reported no deficiencies.

All but three of the respondents said that audit results were reported in writing. The following table lists the recipients of audit results, as reported by the units responding to our questionnaire.

<u>Reported to</u>	<u>Percent</u>
Management of the unit	73
GAO	55
Management--parent organization	51
Congressional committees	42
Office of Management and Budget	41
U.S. Treasury	2
Other	22

Reports submitted to GAO, the Office of Management and Budget, and the Congress were usually sent on request rather than routinely.

No followup action was taken by units on 14 percent of the deficiencies noted by the auditors because the units considered the deficiencies too insignificant to warrant correction. The remaining units generally claimed to have corrected the questionable practices reported.

USE OF PRIVATE FIRMS TO AUDIT FEDERAL UNITS

A total of 44 units reported that they had received a financial audit from a public accounting firm in fiscal years

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1974, 1975, or 1976, and that they had expended \$2.9 million for these reviews. Some units said private firms were used because they had no internal audit staff. However, the primary reason given was that the units preferred a completely independent audit. The cost of other contractual or consulting services performed by the same firms for 15 of the 44 units totaled about \$4.8 million.

About half of the units audited by private firms used non-competitive procedures to select the firms. Several said the same firm was used each year to maintain continuity or because prior audits had been satisfactory. Time constraints were mentioned by one of the units as the reason competitive procedures were not used, and four said the expected costs were not considered high enough to merit formal procedures.

OUR POLICY OF EVALUATING
INTERNAL AUDIT WORK

Since we frequently rely on the work of internal auditors in our own reviews, we must be reasonably certain that agencies' internal auditors are conducting appropriate reviews and testing management control systems, including accounting and financial operations. We must perform enough reviews to be able to assess the adequacy of internal audit coverage. We do this in three ways:

--By reviewing internal audit work directly related to audits that we are performing. In all assignments, it is our policy to examine pertinent internal audit work, evaluate its reliability and usefulness, and refer to it as appropriate in our reports. When inadequate performance or possibilities for improvement are identified, appropriate letters with recommendations for improvements are sent to the responsible agency official after full discussion with the head of the internal audit organization.

--By reviewing selected areas, such as staffing, planning, quality of reports, and management attention to internal audit findings and recommendations.

--By making comprehensive reviews of each agency's internal audit system.

Our evaluations of internal audit operations have produced more than 30 reports to heads of agencies and the Congress in the past 3 years. Almost all of these included recommendations for improving the effectiveness of agency internal audit operations.

OUR GUIDELINES FOR PERFORMING
AUDITS AND ACQUIRING MANAGE-
MENT ADVISORY SERVICES

We have issued guidance to agencies regarding the performance of audits, and a booklet which synthesizes guidelines for acquiring certain services, particularly financial management systems from accounting or management consulting firms.

Audit performance

The Accounting and Auditing Act of 1950 required the Comptroller General to prescribe principles and procedures for internal audit in order to provide guidance to Federal agencies that were developing internal audit organizations. We prescribed such principles in a booklet entitled "Internal Auditing in Federal Agencies" in 1957, and updated them in 1968 and 1974. In addition, in 1972 we issued "Standards for Audits of Governmental Organizations, Programs, Activities & Functions" which applies to audits performed by Federal, State, or local governments or independent public accountants.

These statements stress the need for internal auditors to examine financial transactions to determine whether their agency is (1) maintaining effective control over its assets, liabilities, revenues, and expenditures and (2) complying with the requirements of applicable laws and regulations. These statements also encourage internal auditors to be concerned with minimizing unnecessary or wasteful practices, such as using equipment inefficiently or procuring unneeded property, materials, or supplies.

The statements further broaden the scope of the internal auditor's work to include reviews of the results or benefits achieved by agency programs, and the extent to which the programs are meeting established objectives. We suggest that auditors consider such questions as:

- Is the program accomplishing the results intended in the legislative objective?
- Are program costs commensurate with the benefits achieved?
- Have alternative programs or procedures been examined for potential in achieving objectives with the greatest economic efficiency?

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--Is there a continuing need for the program?

Acquiring management
advisory services

In August 1976 we issued a booklet entitled "Lessons Learned About Acquiring Financial Management & Other Information Systems" which is intended to help agencies avoid pitfalls in their contracts with accounting and management consulting firms for designing, developing, and implementing such systems.

Federal agencies' experiences with contracting for financial and other systems development have varied. All too frequently, the systems have not satisfied agency information needs, were more costly than anticipated, or failed to meet scheduled implementation dates. Since we are responsible for approving and reviewing accounting systems of the executive agencies, we have been increasingly concerned not only that the systems produce accurate data in accordance with prescribed principles and standards but also that the information produced is accepted and used by operating managers.

In approving and reviewing Federal agency accounting systems, many of which are designed and developed with contractor assistance, we noticed common problems and difficulties that were not being systematically documented so other agencies could learn how to avoid them. Similarly, there was no mechanism for telling others about successful practices.

Consequently we decided that a booklet was needed to disseminate the lessons learned by many Federal agencies and contractors in designing, developing, and implementing management information systems. Although we were initially interested in aiding the agencies in developing their accounting systems, it became apparent that the lessons apply to the development of all types of management information systems. The booklet includes guidance on

- determining user requirements,
- in-house development versus contracting,
- project coordinator selection and functions,
- planning the system's scope,
- cooperation and communication,
- detailed work statement,
- request for proposal,
- preproposal conference,
- evaluation,
- negotiation,
- award,

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- resolving questions and issues,
- system design.
- implementation, and
- operation.

GUIDELINES FOR COMPETITIVE
BIDS AND SELECTION OF AUDITORS

We do not provide guidelines to agencies regarding the use of competitive bids for procuring audit services or otherwise. The General Services Administration performs this function for civilian agencies and the Under Secretary of Defense for Research and Engineering for defense agencies. Through our audits of the procurement process, we determine whether these guidelines are being observed.

The Federal Property and Administration Services Act of 1949 authorized the Administrator of the General Services Administration to issue procurement regulations applicable to civilian executive agencies. In 1959 the General Services Administration established the Federal Procurement Regulations, which set forth the detailed rules for civilian agencies to follow when purchasing supplies and services directly from commercial sources. The rules for defense agencies are contained in the Armed Services Procurement Regulations, which were issued in 1949.

Occasionally, we make reviews to determine compliance with these guidelines. Our most recent report in this area is entitled "Competition for Negotiated Government Procurement Can and Should be Improved" (PSAD-77-152, Sept. 15, 1977). The review was prompted by agencies' excessive use of noncompetitive or sole source procurements. We found many unjustified noncompetitive awards by five major civilian agencies. Our conclusions as to reasons for these noncompetitive awards and our recommendations for improving competition are set forth in the digest to the above-mentioned report, which is included as appendix V. There have been no recent reviews by our office specifically directed toward the use of competitive bids in the selection of outside auditors.

Our guidance to agencies in selecting outside auditors has been limited to the qualifications those auditors should possess when they are employed for assignments requiring the expression of an opinion on financial statements of governmental organizations. We have left the question of the size of the firm to be used to the discretion of the selecting agency.

In a June 30, 1976, letter to the heads of Federal departments and agencies, we reiterated our position that

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financial audits of governmental organizations should be conducted by certified public accountants or by licensed public accountants who were licensed on or before December 31, 1970. A 5-year grace period--until December 31, 1975--had previously been provided so that those noncertified accountants who wished to do Government work requiring opinions on financial statements could have an opportunity to pass the certified public accountant examination.

Public accountants who do not meet the qualifications we recommend may do many other types of governmental accounting work, including, but not limited to, audits of efficiency and economy of operations, audits of effectiveness, and accounting systems design work.

CONCLUSION

Many Federal organizational units are not receiving annual financial audits of their accounts and records. One hundred and thirty-three units, with annual funding in excess of \$20 billion, said they had not received a financial audit during fiscal years 1974 through 1976, although 58 of these units reported they did receive nonfinancial audits. Negative responses by the units do not necessarily mean that all of the unit's funds have not been audited, since many units serve as conduits for the flow of Federal assistance funds to individuals or State and local governments. The funds are often audited at the State or local level even though the disbursing unit itself is not audited.

The responses to our questionnaire tend to corroborate what we have been finding in reviews of the extent of internal financial auditing in the major departments and agencies in the past 2 years. Improvements have been made in financial auditing in several agencies as a result of these reviews, and we intend to continue to evaluate the adequacy of internal financial auditing on an agency-by-agency basis in order to strengthen financial auditing of Federal expenditures.

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Your office requested that we make no further distribution of this report prior to committee hearings on a bill to establish Offices of Inspector General in certain executive departments and agencies, at which the report will be used. These hearings are now scheduled to be held on June 14 and 15, 1978.

Sincerely yours,


ACTING Comptroller General
of the United States

APPENDIX I

APPENDIX I

ABRAHAM RIBICOFF, SEN., CHAIRMAN
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United States Senate

COMMITTEE ON
 GOVERNMENTAL AFFAIRS
 SUBCOMMITTEE ON REPORTS,
 ACCOUNTING, AND MANAGEMENT
 (PURSUANT TO S. RES. 4 AND S. RES. 7, 97th CONGRESS)
 WASHINGTON, D.C. 20510

RICHARD A. WHELAN
 CHIEF COUNSEL AND STAFF DIRECTOR

25 May 1977

The Honorable Elmer B. Staats
 Comptroller General
 General Accounting Office
 Washington, D.C. 20548

Dear General Staats:

The GAO has responsibility for the development of accounting and auditing principles and standards for the various Federal agencies. This Subcommittee is reviewing the processes by which accounting and auditing practices and procedures, promulgated or approved by the Federal Government, are established. As part of that review the Subcommittee will appreciate preparation by your office of certain information regarding annual audits of each organizational unit within the executive branch. The April, 1977 inventory of those units, prepared by the President's Reorganization Project, is enclosed for convenient reference.

Please advise the Subcommittee who performed the audit for each of these named units during fiscal 1976, 1975 and 1974.

State to whom the audit results were reported.

What questionable practices were revealed and reported by the outside auditor?

What follow-up was taken by the agency?

Did GAO evaluate the audit work that was performed?

If the audit was made by a private firm, rather than the GAO or some other Federal entity, please provide the following information:

APPENDIX I

APPENDIX I

The Honorable Elmer B. Staats
25 May 1977
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1. Reason for use of a private firm rather than a Federal agency's internal audit of the GAO.
2. Name of the firm(s) which made the audit in fiscal 1976, 1975 and 1974.
3. Cost of the audit to the Federal Government in each year.
4. Did the firm(s) have any other contractual or consulting relationship with the agency during these years? If so, for what purpose(s) and at what price(s) to the agency?
5. Method of selection of auditor--competitive bid, negotiation or other (specify)--in fiscal 1976. If competitive bids were not used, were time constraints a major factor in deciding not to request bids? What guidelines does GAO provide agencies regarding use of competitive bids and consideration of small and medium-sized firms in selection of outside auditors? What guidelines has GAO issued to agencies regarding performance of audits or performance of management advisory services? What oversight did GAO exercise to assure that guidelines regarding competitive bidding are followed?

For each governmental unit listed in the enclosure, please indicate whether the audit and financial reports were performed in accordance with standards established by the GAO, generally accepted auditing or accounting standards, or standards from some other source (specify the source).

Staff Director Vic Reinemer and Counsel Jack Chesson have discussed this request with Director D.L. Scantlebury, John Adair and Jim Wright of your Financial and General Management Division.

Very truly yours,



Enclosure

**SURVEY OF EXECUTIVE BRANCH AGENCIES
CONCERNING FINANCIAL AUDITS
OF THEIR OPERATIONS**



INTRODUCTION

At the request of the Subcommittee on Reports, Accounting, and Management of the Senate Committee on Governmental Affairs, the U. S. General Accounting Office is compiling certain information regarding financial audits of the organizational units within the executive branch. Your assistance in completing the enclosed questionnaire will be greatly appreciated.

This does not refer to audits which are performed by programs, grants, or contracts. It refers only to audits of your organization's internal accounts and records.

We have enclosed a stamped self-addressed envelope for your use. Please return the enclosed questionnaire within 10 days.

If you have any questions, please call Mr. John Adair or Mr. Paul Lynch; telephone no. (202) 275-5824.

NOTE: In filling out this questionnaire, please ignore the numbers in parentheses to the right of a question/item; they are included to facilitate keypunching.

1. Name of your organizational unit _____

Name of person filling out this questionnaire _____

Telephone No. _____

PART I: FINANCIAL AUDITS

2. Is there a requirement (formal or informal) for a periodic financial audit of the accounts and records of your organization?
- 1. Yes (e)
 - 2. No (Go to question 4)
 - 3. Don't know (Go to question 4)
3. If yes, on what is the requirement based? (Check all that apply)
- Legislation (7)
 - GAO directive (5)
 - Treasury Department directive (6)
 - Parent organization policy (10)
 - Organization policy (11)
 - Informal agreement with GAO or Treasury Department (12)
 - Other (Please specify) _____ (13)

4. Are your organization's accounts and records subjected to annual or to periodic financial audit? (Check all that apply)
- Annual financial audit (14)
 - Bi-annual financial audit (15)
 - Periodic financial audit () to 5 year intervals (16)
 - Other (Please specify) _____ (17)
 - Financial accounts and records of this organization are not audited. (18)

APPENDIX II

APPENDIX II

5. Were your organization's accounts and records subjected to periodic financial audit in 1974, 1975, or 1976?
1. No (19)
2. Yes (Go to question 7)

6. If no, please indicate the reason(s) why audits were not performed. (Check all that apply)
- No requirement for periodic financial audits (20)
- Operational audits are emphasized by our organization (21)
- Organization does not have the resources necessary (22)
- No direct audit but economy and efficiency reviews include financial aspects (23)
- Financial records and accounts are audited on a piecemeal basis during program audits (24)
- Other (Please specify) _____ (25)

If no periodic financial audits of your agency's accounts and records are ever performed, please check this box and skip to question 20 (26)

7. If your organization's accounts and records were subjected to periodic financial audit in 1974, 1975, or 1976, who performed such audits? (Check each of the listed groups who performed at least one of the three possible audits)
- Accounts and records were not subject to periodic financial audit in 1974, 1975, or 1976 (27)
- Our organization's internal audit, inspection or review group (28)
- An audit, review or inspection group from one of our organization's parent organizations (e.g. bureau, agency, department level) (29)
- A public accounting firm (30)
- U. S. General Accounting Office (31)
- Other (Please describe) _____ (32)

If a public accounting firm did not perform any periodic financial audits in either 1974, 1975, or 1976, please skip to question 16; otherwise, continue.

8. Indicate the number(s) for having your unit's periodic financial audit(s) performed by a public accounting firm. (Check all that apply)
- We do not have an internal audit staff. (33)
- Our internal audit staff does not have the resources (34)
- Our parent organization's internal audit staff does not audit our unit (35)
- We prefer a completely independent audit (36)
- Other (Please specify) _____

_____ (37)

Card No. (80)

APPENDIX II

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9. Which of the following public accounting firms performed financial audits of your organization's accounts and records in either 1974, 1975 or 1976. (Check the appropriate column, if any).

FIRM	Performed audit(s) in:		
	1) 1974	2) 1975	3) 1976
Arthur Andersen & Co.	<input type="checkbox"/> (6)	<input type="checkbox"/> (7)	<input type="checkbox"/> (8)
Arthur Young & Co.	<input type="checkbox"/> (9)	<input type="checkbox"/> (10)	<input type="checkbox"/> (11)
Coopers & Lybrand	<input type="checkbox"/> (12)	<input type="checkbox"/> (13)	<input type="checkbox"/> (14)
Ernst & Ernst	<input type="checkbox"/> (15)	<input type="checkbox"/> (16)	<input type="checkbox"/> (17)
Haskins & Sells	<input type="checkbox"/> (18)	<input type="checkbox"/> (19)	<input type="checkbox"/> (20)
Peat, Marwick, Mitchell & Co.	<input type="checkbox"/> (21)	<input type="checkbox"/> (22)	<input type="checkbox"/> (23)
Price Waterhouse & Co.	<input type="checkbox"/> (24)	<input type="checkbox"/> (25)	<input type="checkbox"/> (26)
Touche Ross & Co.	<input type="checkbox"/> (27)	<input type="checkbox"/> (28)	<input type="checkbox"/> (29)
Alexander Grant & Co.	<input type="checkbox"/> (30)	<input type="checkbox"/> (31)	<input type="checkbox"/> (32)
Burdman and Cranston	<input type="checkbox"/> (33)	<input type="checkbox"/> (34)	<input type="checkbox"/> (35)
J. E. Lasser & Co.	<input type="checkbox"/> (36)	<input type="checkbox"/> (37)	<input type="checkbox"/> (38)
Leventhal & Borwath	<input type="checkbox"/> (39)	<input type="checkbox"/> (40)	<input type="checkbox"/> (41)
S. D. Leidesdorf & Co.	<input type="checkbox"/> (42)	<input type="checkbox"/> (43)	<input type="checkbox"/> (44)
Main LaFrents & Co.	<input type="checkbox"/> (45)	<input type="checkbox"/> (46)	<input type="checkbox"/> (47)
Seldman & Seldman	<input type="checkbox"/> (48)	<input type="checkbox"/> (49)	<input type="checkbox"/> (50)
Other (Please specify)	<input type="checkbox"/> (51)	<input type="checkbox"/> (52)	<input type="checkbox"/> (53)

10. Please list below the amount paid to the public accounting firm for conducting a periodic financial audit in each of the three fiscal years: 1974, 1975 and 1976.

Amount Paid for Annual Financial Audit

(in thousands)

During Fiscal Year 1974 \$ _____ (54-57)

During Fiscal Year 1975 \$ _____ (58-61)

During Fiscal Year 1976 \$ _____ (62-65)

11. Which of the following best describes the method by which your organization selected the public accounting firm to perform a periodic financial audit of your organization during fiscal year 1976? (Please check only one)

- 1. Invitation for bid (See question 6)
- 2. Request for proposal (See question 6)
- 3. Sole source determination
- 4. Other (Please describe) _____
- 5. Not done in 1976

12. If you checked "sole source" or "other" in question 11, please indicate the major reason. (Check only one answer)

- 1. Estimated cost was not considered (47) high enough to merit formal procedures
- 2. Time constraints were too great to permit invitation for bid or request for proposal procedures
- 3. Other (please describe) _____

13. Which of the following sets of standards does your agency (or the public accounting firm) follow in carrying out the financial audit? (Check all that apply)

- Generally accepted auditing standards (66)
- Auditing standards promulgated by the Comptroller General (69)
- Other Standards (Please specify) (70)

APPENDIX II

14. In which of the following ways are the results of the financial audit of your accounts and records reported by the auditing organization? (Please check all that apply)
- Oral reports only are given on the (71) results of the audit
 - Written reports of the results of (72) the audit are sent to management at this organizational location
 - Written reports of the results of (73) the audit are sent to management at one or more parent organizational levels
 - Written reports of the results of (74) the audit are made available to the General Accounting Office
 - 1) routinely
 - 2) only upon request
 - Written reports of the results of (75) the audit are routinely sent to the U. S. Department of the Treasury
 - Written reports of the results (76) of the audit are sent to the Office of Management and Budget
 - 1) routinely
 - 2) only upon request.
 - Written reports of the results (77) of the audit are routinely sent to cognizant Committees of the Congress
 - Written reports of the results (78) of the audit are sent to cognizant Committees of the Congress only upon request.
 - Other (Please describe) _____ (79)
 - _____ (80)
 - Card No. 2 (80)

APPENDIX II

15. Which, if any, of the following categories of deficiencies were disclosed during the course of the financial audit of your organization during either fiscal year 1974, fiscal year 1975, or fiscal year 1976? (Please check all that apply)
- Inadequate internal control (6)
 - Inadequate records and /or reports (7)
 - Inadequate inventory control (8) practices
 - Inadequate compliance with (9) laws and regulations
 - Inadequate accounting pro- (10) cedures
 - Inadequate reconciliation of (11) cash with U. S. Treasury fund balances
 - Inadequate internal audit (12)
 - Excessive funds on hand (13)
 - Fraud, theft or other (14) criminal activity
 - Disbursement irregularities (15)
 - Inadequate handling of im- (16) proper funds
 - Other questionable prac- (17) tices (Please describe)
 - _____
 - _____
 - _____
 - No deficiencies were dis- (18) closed (Go to question 18)

APPENDIX II

16. Indicate below the follow-up action (s) taken by your organization to correct the deficiencies cited in your response to question 15. (Check all that apply)
- Deficiencies reported were insignificant (19)
 - Internal control improved (20)
 - Record system & reporting procedures changed (21)
 - More stringent inventory controls (22)
 - Accounting procedures modified (23)
 - Internal audit process improved (24)
 - More frequent reconciliation of cash on hand with U. S. Treasury fund balances (25)
 - Disbursement procedures under more control (26)
 - Other (Please describe) _____ (27)

17. To which, if any, of the listed organization's did your organization report the follow-up actions cited in your response to question 16.
- Management at one or more parent organizations (28)
 - U. S. General Accounting Office (29)
 - U. S. Department of Treasury (30)
 - Office of Management and Budget (31)
 - Cognizant committees of the Congress (32)
 - Other (Please specify) _____ (33)
- Did not report follow-up actions (34)

APPENDIX II

18. Did any of the public accounting firms, that performed a periodic financial audit of the accounts and records of your organization in fiscal years 1974, 1975 and 1976, also provide any other contractual or consulting services during the same three-year period.
- 1. Yes (35)
 - 2. No (If no, please skip to question 19.)
19. Please describe below the nature of the services (other than the periodic financial audit) provided during fiscal years 1974, 1975 and 1976 by the same firm that performed the financial audit during the same year as well as the amount expended for such services.
1. Nature of services (other than the financial audit) provided during fiscal year 1974 by the firm that performed the financial audit in fiscal year 1974.

 2. Total amount paid to that firm during fiscal year 1974 for services other than the financial audit \$ _____ (in thousands) (36-39)
 3. Nature of services (other than the financial audit) provided during fiscal year 1975 by the firms that performed the financial audit in fiscal year 1975.

 4. Total amount paid to that firm during fiscal year 1975 for services other than the financial audit \$ _____ (in thousands) (40-43)
 5. Nature of services (other than the financial audit) provided during fiscal year 1976 by the firms that performed the financial audit in fiscal year 1976.

 6. Total amount paid to that firm during fiscal year 1976 for services other than the financial audit \$ _____ (in thousands) (44-47)

APPENDIX II

APPENDIX II

20. Apart from the periodic financial audits referred to in the previous questions, were any other audits, surveys, reviews or investigations conducted at your organization's location during fiscal years 1974, 1975 and 1976?
1. Yes
2. No (If no, please go to part II) (48)
21. Which of the following groups conducted at least one audit, survey, review or investigation at your organization's location during fiscal years 1974, 1975 or 1976? (Please check all that apply.)
1. This organization's internal audit, inspection or review group (49)
2. An audit, inspection or review group from a parent organization (50)
3. An audit, inspection, or review group from an organization within the Executive Branch of Government that is not a parent organization to this organization (51)
4. The U. S. General Accounting Office (52)
5. An investigative staff of a committee of the Congress (53)
6. A public accounting firm (54)
7. Other (Please specify) _____ (55)
- _____
- _____
- _____

PART II: ADVISORY AND INTERAGENCY COMMITTEE
FINANCIAL AUDITS

If your organization is either an advisory or interagency committee, please go to question 28 page 7

22. Does your organization have advisory committees of any kind? (56)
1. Yes
2. No (Go to question 25)

23. If yes, are the advisory committee accounts and records subject to periodic financial audit as part of general organization expenditures, or are they subject to a separate audit? (Check one)
1. Not subject to audit (Go to question 27) (57)
2. Audited as part of general funds
3. Accounts and records of all advisory committees are combined and undergo joint audit
4. Each advisory committee is audited separately.
5. Don't know (Go to question 27)
24. If periodic financial audits are performed of the accounts and records of your agency's advisory committees, who performs these audits? (Check all that apply)
1. This organization's internal audit, inspection or review group (58)
2. An audit, inspection or review group from a parent organization (59)
3. An audit, inspection, or review group from an organization within the Executive Branch of Government that is not a parent organization to this organization (60)
4. The U. S. General Accounting Office (61)
5. An investigative staff of a committee of the Congress (62)
6. A public accounting firm (63)
7. Other (Please specify) _____ (64)
- _____
- _____
- _____

APPENDIX II

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25. Do members of your organization serve on any interagency committees?

- 1. Yes
- 2. No (Go to question 28)

26. If yes, are the accounts and records of these interagency committees subject to periodic financial audit? (Check one)

- 1. Yes, as part of a periodic financial audit of general organization funds (Go to question 28)
- 2. Yes, to a separate periodic financial audit
- 3. No (Go to question 28)
- 4. Don't know (Go to question 28)

(65) 27. If financial audits of the accounts and records of interagency committees are performed, who performs the financial audits?

- 1. This organization's internal audit, inspection or review group (67)
- 2. Another agency's internal audit, inspection or review group (68)
- 3. An audit, inspection or review group from a parent organization to this organization (69)
- 4. An audit, inspection, or review group from an organization within the Executive Branch of Government that is not a parent organization to this organization (70)
- 5. The U. S. General Accounting Office (71)
- 6. An investigative staff of a committee of the Congress. (72)
- 7. A public accounting firm (73)
- 8. Other (Please specify) _____ (74)

9. Don't know (75)

28. Please provide below any additional comments that you would like to make concerning the nature and extent of audits or reviews that have been made of your organization's operations. Thank you for your cooperation.

GOVERNMENTAL UNITS THAT DID NOT RECEIVE
FINANCIAL AUDITS IN FISCAL YEARS 1974-76

<u>Executive Office of the President</u>	<u>Fiscal year 1977</u> <u>authorization</u> (millions)
<u>Less than \$10 million:</u>	
Office of Federal Procurement Policy	\$ 1.7
Domestic Council	1.8
Council of Economic Advisors	1.8
National Security Council	3.3
Council on Wage and Price Stability	1.9
<u>\$10 to \$100 million:</u>	
Office of Management and Budget	27.5

APPENDIX III

APPENDIX III

Department of AgricultureFiscal year 1977
authorization

(millions)

Less than \$10 million:

Farmers Cooperative Service (note a)	\$ 2.7
Packers and Stockyard Administration	5.5
National Agricultural Library	6.2
Federal Grain Inspection Service	8.5

\$10 to \$100 million:

Foreign Agricultural Service (note a)	40.0
Agricultural Marketing Service	49.6
Rural Electrification Salaries and Expenses (notes a and b)	22.3

\$100 to \$500 million:

Animal and Plant Health Inspection Service (note a)	322.5
Agricultural Research Service (note b)	282.9
Extension Service, Management Opera- tions Staff (note c)	241.9
Agriculture Stabilization and Con- servation Service (note a)	157.3

APPENDIX III

Department of Commerce

Less than \$10 million:

New England Regional Commission
 (notes a and b)
 Office of Regional Economic Coordi-
 nation
 Assistant and Secretary for Science
 and Technology (note c)
 Pacific Northwest Regional Commission

\$10 to \$100 million:

Office of Coastal Zone Management
 (notes a and b)

APPENDIX III

Fiscal year 1977
authorization

(millions)

\$ 8.0

.6

.3

7.1

37.7

APPENDIX III

Department of Defense

Less than \$10 million:

California Debris Commission	(d)
U.S. Court of Military Appeals	\$ 1.3
United States Readiness Command (notes a, b, and c)	3.7
Chief of Naval Reserve (notes a and b)	.3
Armed Forces Institute of Pathology (notes a and c)	7.3
The Air National Guard of the United States (notes a and b)	1.1
Armed Forces Radio Biology Research Institute (note a)	5.0
Board of Engineers for Rivers and Harbors (note c)	2.1
U.S. Atlantic Command (notes a and c)	4.0
Office of the Civilian Health and Medical Programs of the Uniform Services (notes a and b)	- .6

\$10 to \$100 million:

Defense Audit Service	10.5
Marine Corps Reserve (notes a and b)	89.0

\$100 to \$500 million:

Defense Communication Agency (note a)	148.2
Defense Intelligence Agency (note a)	107.9
Defense Nuclear Agency (notes a and b)	194.8
Defense Advanced Research Projects Agency (notes a and b)	235.4

Classified:

National Security Agency/Central Security Service (note c)

Appropriation information not readily available:

Office of the Chief Army Reserve

APPENDIX III

Fiscal year 1977
authorization

(millions)

APPENDIX III

APPENDIX III

Department of Health, Education, and welfare	Fiscal year 1977 authorization
	(millions)
<u>Less than \$10 million:</u>	
Office of Long Term Care Administration on Aging	\$ 5.9 (d)
<u>\$10 to \$100 million:</u>	
Bureau of Supplemental Security Income (notes a and b)	13.1
Bureau of Quality Assurance	64.7
Office of Inspector General (notes a and b)	24.0
Office of Child Development	15.7
<u>\$100 to \$500 million:</u>	
Office of Libraries and Learning Resources	257.0
Bureau of Disability Insurance	354.0
Bureau of Hearing and Appeals (notes a and b)	110.4
<u>Over \$500 million:</u>	
Rehabilitation Service Administration	902.4
Bureau of Elementary and Secondary Education	2,722.0-
Bureau of Health Insurance	610.2
Medical Services Administration	9,743.1
Administration for Public Services	2,746.0

APPENDIX III

APPENDIX III

Department of Housing
and Urban DevelopmentFiscal year 1977
authorization

(millions)

Less than \$10 million:

Board of Contract Appeals	\$.2
Office of Fair Housing and Equal Opportunity	3.4
New Community Development Corporation (notes a and b)	7.1

\$10 to \$100 million:

New Communities Administration (notes a, b, and c)	89.4
Federal Insurance Administration (note c)	75.0

APPENDIX III

APPENDIX III

Department of the InteriorFiscal year 1977
authorization

(millions)

Less than \$10 million:

United States National Committee on Geology	\$ (d)
Board of Geographic Names	(d)
National Cartographic Information Center	(d)
Ocean Mining Administration	(d)

\$10 to \$100 million:

Mining Enforcement and Safety Admin- istration (notes a and b)	99.3
Bureau of Reclamation (notes a and b)	27.4

\$100 to \$500 million:

Bureau of Mines (notes a and b)	133.6
Geological Survey (notes a and b)	320.4
U.S. Fish and Wildlife Service (notes a and b)	148.5
National Park Service (notes a and b)	295.0

APPENDIX III

APPENDIX III

Department of JusticeFiscal year 1977
authorization

(millions)

Less than \$10 million:

Office of the Pardon Attorney	\$.2
Board of Immigration Appeals (note c)	1.2
Land and Natural Resources Division	7.8
Community Relations Service (note c)	4.5
Office of the Solicitor General	2.0

\$10 to \$100 million:

Civil Rights Division	10.6
Office of Juvenile Justice and Delinquency Prevention	93.3
National Institute of Juvenile Justice and Delinquency	10.0
Tax Division (note a)	12.3
National Criminal Justice Infor- mation and Statistics Service	34.8
National Institute of Law Enforcement and Criminal Justice	27.0

\$100 to \$500 million:

Drug Enforcement Administration (notes a and b)	168.2
--	-------

Over \$500 million:

Law Enforcement Assistance Admin- istration	753.0
--	-------

APPENDIX III

Department of Labor

Less than \$10 million:

Office of Administrative Law Judge	\$ 3.1
Wage Appeals Board	.05
Office of Federal Contract Compliance Program (notes a and b)	6.6
Employee's Compensation Appeals Board (note c)	.3
Bureau of International Labor Affairs	4.7
Women's Bureau (note a)	(d)
Benefits Review Board (note a)	.5

\$10 to \$100 million:

Unemployment Insurance Service	11.8
Wage and Hour Division, Employees Standards Administration	50.5
Bureau of Apprenticeship Training	13.0
United States Employment Service (note c)	15.7
Labor Management Services Admin- istration	50.7
Pension Welfare Benefit Program	19.0

\$100 to \$500 million:

Occupational Safety and Health Administration	130.3
--	-------

APPENDIX III

Fiscal year 1977
authorization

(millions)

APPENDIX III

APPENDIX III

Department of State

Fiscal year 1977
authorization

(millions)

Less than \$10 million:

Bureau of Oceans and International
Environmental and Scientific
Affairs

\$ 4.2

\$10 to \$100 million:

Bureau of Consular Affairs

22.2

APPENDIX III

APPENDIX III

<u>Independent Agencies and Other Committees, Commissions, and Boards</u>	<u>Fiscal year 1977 authorization</u> (millions)
<u>Less than \$10 million:</u>	
Advisory Commission on Intergovernmental Relations (note c)	\$ 1.4
National Capital Planning Commission (note a)	2.0
Woodrow Wilson International Center for Scholars	1.1
National Center for Productivity and Quality of Working Life	2.8
The Renegotiation Board	6.0
U.S. Indian Claims Commission	1.6
National Mediation Board/National Railroad Adjustment Board (note b)	3.6
Migratory Bird Conservation Commission	.007
Office of International Narcotics Control (notes a and c)	.03
Interagency Liaison Group on International Organizational Recruitment (note b)	.3
Administrative Conference of U.S. (notes a and c)	.9
Office of Monitoring and Technical Support (notes a, b, and c)	.036
President's Commission on Personnel Interchange (notes a and c)	.4
Civil Service Commission/Board of Actuaries	.002
Office of Enforcement (EPA's Internal Audit, Inspection, and Review Group) (notes b and c)	.056
Advisory Council on Historic Preservation (note c)	.7
Commission on Fine Arts (note c)	.2
National Center for Prevention and Control of Rape	4.4
Committee for Purchase from the Blind and Other Severely Handi- capped (notes a and b)	.3
National Commission on the Observance of International Women's Year (notes b and c)	4.4
The President's Committee on Employment of the Handicapped	1.4
White House Conference on Handicapped Individuals	1.4
Office of Water and Hazardous Materials (notes b and c)	1.0
Marine Mammal Commission (note a)	1.0
International Boundary Commission	.3
<u>\$10 to \$100 million:</u>	
Commodity Futures Trading Commission	13.1
Federal Trade Commission	54.7
Federal Mediation and Conciliation Service	21.2
U.S. Consumer Product Safety Commission (note b)	39.8
National Transportation Safety Board (notes a and c)	13.8
U.S. Board for International Broadcasting (note b)	56.7
National Institute for Occupational Safety and Health	49.7
Office of Solid Waste--EPA (notes b and c)	18.7

APPENDIX III

APPENDIX III

fiscal year 1977
authorization

(millions)

\$10 to \$100 million:

Federal Preparedness Agency (note c)	\$ 17.3
NRC/Office of Nuclear Material Safety and Safeguards	21.1
NRC/Office of Nuclear Reactor Regulation	42.1

\$100 to \$500 million:

ACTION--including Peace Corps and VISTA (notes a and b)	189.1
District of Columbia Government (notes a and c)	380.7
Office of Research and Development/EPA	260.5
NRC/Office of Nuclear Regulatory Research	119.4
National Endowment for the Arts (note a)	199.2
National Endowment for the Humanities (note a)	121.3

No funds appropriated:

Interagency Committee on Medical Records
 Citizens Stamp Advisory Committee, Customer Service
 Department
 Board of Foreign Scholarships
 National Council on Organized Crime
 Task Force on Questionable Corporate Payments Abroad
 Low Emission Vehicle Certification Board--EPA
 Interagency Advisory Committee on Water Data
 Interagency Clean Car Advisory Committee--EPA
 Interdepartmental Committee for Atmospheric Sciences
 East-West Foreign Trade Board
 Interagency Committee on Timber Sales Procedures
 Interagency Ocean Dumping Coordinating Committee
 Interagency Committee on Transportation and Traffic Management
 Interagency Committee on Drug Abuse Prevention, Treatment
 and Rehabilitation
 Interagency Committee on Handicapped Employees
 Office of International Investment
 Interagency Committee on Security Equipment
 Development Coordinating Committee
 Interagency Staff Committee on Public Law 480
 Rural Electrification and Telephone Revolving Fund (notes a, b,
 and e)
 Federal-State Land Use Planning Commission for Alaska
 National Advisory Council on International Monetary
 and Financial Policies

APPENDIX III

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No funds appropriated:

Interagency Coordinating Committee on Laboratory Medicine
Interagency Council for Minority Business Enterprise
Interagency Aircraft and Noise Abatement Program
Interagency Advisory Group: Civil Service Commission
Federal Coordinating Council for Science, Engineering, and Technology
Textile Trade Policy Group
Interagency Procurement Policy Committee
Office of Standards and Quality Control
Advisory Board on Child Abuse and Neglect
Federal Council on Arts and Humanities
Committee for the Implementation of Textile Agreements
Australian, New Zealand and United States Treaty Council
Pension Benefit Guaranty Corporation (notes b and e)

a/Nonfinancial audit coverage was provided by an internal audit group.

b/Nonfinancial audit coverage was provided by CAO.

c/Unit said no financial coverage was received--but the narrative portion of their questionnaire indicated possible financial coverage. For example, some unit financial records were kept at a central location and may have been audited.

d/The unit had no funds of its own subject to audit.

e/Denotes "off budget" units. These are entities, federally owned in whole or in part, whose transactions have been excluded from the budget totals under provisions of law. The Rural Electrification and Telephone Revolving Fund had assets of about \$9 billion--primarily loans receivable--and liabilities of about \$8 billion--primarily long-term notes payable to the Treasury--at the end of fiscal year 1977. The Pension Benefit Guaranty Corporation had assets and liabilities of \$271 million at the end of fiscal year 1977.

APPENDIX IV

APPENDIX IV

GOVERNMENTAL UNITS
AUDITED BY CPA FIRMS
FISCAL YEARS 1974-76

Civil Units

<u>Governmental unit and CPA firm</u>	<u>Type of service</u>	<u>Fees</u>		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
Federal Home Loan Mortgage Corporation (Arthur Andersen)	Audit	\$43,000	\$52,000	\$52,000
	a/Consulting	48,000	8,000	7,000
National Park Foundation (Arthur Young)	Audit	8,000	7,000	7,000
Legal Services Corporation (Price Waterhouse)	Audit	-	400	11,000
	b/Consulting	-	-	35,000
National Railroad Passenger Corporation (Arthur Andersen)	Audit	125,000	187,000	73,000
	c/Consulting	2,139,000	320,000	1,567,000

a/1974--Reviewing prospectuses, offering circulars and related matters; systems consulting; and modification to Federal Reserve System
 1975--Reviewing prospectuses and offering circulars, and systems consulting.
 1976--Reviewing prospectus and offering circular.

b/1976--Design of a basic accounting system

c/1974--Centralizing revenue accounting; controls implementation; assistance to contract audit department; and review on-board services.
 1975--Long-range systems planning and testifying as independent public accountants regarding contract costs in arbitration cases.
 1976--Services in connection with development and installation of accounting systems and procedures, Northeast Corridor.

APPENDIX IV

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Governmental unit and CPA firm	Civil Units Type of service	Fees		
		1974	1975	1976
Tennessee Valley Authority (Coopers & Lybrand)	Audit	\$134,000	\$158,000	\$148,000
Board of Governors of the Federal Reserve System (Touche Ross)	Audit	9,000	10,000	10,000
	a/Consulting	24,000	40,000	25,000
Department of Commerce Office of the Secretary (Price Waterhouse-1974, Arthur Andersen-1975)	Audit	7,000	6,000	-
Internal Review and Security Division, Office of the Executive Director Federal Communications Commission (Coopers & Lybrand)	Audit	4,000	-	-
Department of Justice-Office of Alien Property (Peat Marwick)	Audit	2,000	2,000	2,000
Securities Investor Protection Corporation (S. D. Leidesdorf)	Audit	7,000	5,000	5,000
	b/Consulting	9,000	3,000	9,000
<p>a/1974--Review of procedures used by the Board's examining staff in their annual examination of Federal Reserve Banks and review of Board construction contracts and related change orders.</p> <p>1975--Review of procedures used by examining staff and review of proposed capitalization policy, inventory, contracting... procurement and accrual procedures.</p> <p>1976--Review of procedures used by examining staff.</p>				
<p>b/1974--Examination of internal accounting controls of several of the Corporation's collection agents.</p> <p>1975--Same as above.</p> <p>1976--Same as above.</p>				

APPENDIX IV

APPENDIX IV

<u>Governmental unit and CPA firm</u>	<u>Civil Units</u> Type of service	<u>Fees</u>		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
Comptroller of the Currency (Price Waterhouse)	Audit	\$28,000	\$33,000	\$37,000
Washington Metropolitan Area Transit Authority (note a) (Ernst and Ernst)	Audit	112,000	74,000	94,000

a/A non-Federal agency which received Federal funding under the National Capital Transportation Act of 1969 until 1978.

APPENDIX IV

APPENDIX IV

<u>Governmental unit and CPA firm</u>	<u>Military Units</u> <u>Type of service</u>	<u>Fees</u>		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
U.S. Soldiers and Airmen's Home (Small CPA firm)	Audit	\$ 3,000	\$ 3,000	\$ 3,000
Army & Air Force Exchange Service (AAFES) (Alexander Grant 1974-75. Peat Marwick 1976)	Audit	75,000	90,000	100,000
Army & Air Force Motion Picture Service (note a) (Touche Ross)	Audit	13,000	16,000	-
Headquarters, Aerospace Defense Command (Alexander Grant and others)	Audit	6,000	8,000	7,000
	b/Consulting	-	1,000	6,000
Strategic Air Command (Alexander Grant and others)	Audit	39,000	28,000	11,000
Defense Logistics Agency (Alexander Grant and others)	Audit	-	9,000	-
Military Airlift Command (Alexander Grant and others)	Audit	11,000	18,000	15,000
	c/Consulting	-	9,000	8,000
U.S. Air Force Academy (Alexander Grant)	Audit	-	5,000	-
U.S. Naval Academy (Small CPA firm)	Audit	7,000	9,000	7,000

a/Merged with AAFES in 1976.

b/1975--One operational/management audit.
1976--Three operational/management audits.

c/1975--Operational reviews.
1976--Operational reviews.

APPENDIX IV

APPENDIX IV

International Commissions

Governmental unit and CPA firm	Type of service	Fees		
		1974	1975	1976
International Pacific Halibut Commission (Small CPA firm)	Audit	\$ 700	\$ 700	\$ 800
Inter-American Tropical Tuna Commission (Small CPA firm)	Audit	2,000	2,000	2,000
International Pacific Salmon Fisheries Commission (Peat Marwick)	Audit	-	3,000	2,000
International Institute for Cotton (Arthur Andersen)	Audit	9,000	12,000	11,000
	a/Consulting	700	1,200	600
Intergovernmental Committee for European Migration (Price Waterhouse)	Audit	27,000	35,000	43,000
International Cotton Advisory Committee (Price Waterhouse)	Audit	2,000	3,000	3,000
	b/Consulting	-	-	300
International Commission for the Conservation of Atlantic Tunas (Small CPA firm)	Audit	1,000	1,000	1,000
International Wheat Council (Price Waterhouse)	Audit	1,000	2,000	3,000
	c/Consulting	-	-	3,000

a/1974--Advice on U.S. and Belgian tax returns for non-Belgian members of the staff.

1975--Same as above.

1976--Same as above.

b/1976--Examined pension fund in light of tax changes.

c/1976--Reconstruction of records of accounts due to loss of supporting documents such as invoices, bank statements, and canceled checks.

APPENDIX IV

APPENDIX IV

International Commissions

<u>Governmental unit and CPA firm</u>	<u>Type of service</u>	<u>Fees</u>		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
International North Pacific Fisheries Commission (Peat Marwick)	Audit	\$ 400	\$ 400	\$ 700
International Atomic Energy Agency (Small CPA firm)	Audit	13,000	11,000	18,000
United Nations Education, Scientific, & Cultural Organization (UNESCO) (Price Waterhouse)	Audit	-	-	12,000
International Whaling Com- mission (Small CPA firm)	Audit	-	-	(a)

a/Not provided.

APPENDIX IV

APPENDIX IV

River Basin Commissions

Governmental unit and CPA firm	Type of service	Fees		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
Missouri River Basin Commission (Arthur Young)	Audit	\$ 1,000	\$ 2,000	\$ 2,000
Susquehanna River Basin Commission (Small CPA firm)	Audit	3,000	3,000	3,000
Upper Mississippi River Basin Commission (Small CPA firm 1974-75, Ernst & Ernst 1976)	Audit	500	600	2,000
	<u>a/Consulting</u>	-	-	1,000
Ohio River Basin Commission (Small CPA firm)	Audit	2,000	3,000	3,000
Pacific Northwest River Basin Commission (small CPA firm)	Audit	2,000	2,000	2,000
Delaware River Basin Commission (Ernst & Ernst)	Audit	6,000	6,000	7,000

a/1976—Consulting to advise staff on devising a computerized accounting budgeting system.

APPENDIX IV

APPENDIX IV

Non-Governmental Units
Included in Inventory

<u>Unit and CPA firm</u>	<u>Type of service</u>	<u>Fees</u>		
		<u>1974</u>	<u>1975</u>	<u>1976</u>
American Printing House for the Blind	Audit	\$ 6,000	\$ 6,000	\$ 7,000
(Small CPA firm)	a/Consulting	-	-	4,000
Howard University (Peat Marwick)	Audit	95,000	130,000	135,000
	b/Consulting	117,000	169,000	117,000
National Technical Institute for the Deaf at Rochester Institute of Technology	Audit	18,000	20,000	24,000
(Haskins & Sell)	c/Consulting	-	-	25,000
National Academy of Sciences	Audit	46,000	44,000	50,000
(Price Waterhouse)	d/Consulting	-	30,000	-
Callaudet College (Price Waterhouse)	Audit	32,000	35,000	47,000

a/1976--Retirement plan audit. Consultation in connection with review by Library of Congress Division for the Blind and Physically Handicapped, and the Office of Education.

b/1974--Assistance in installation of new computerized financial accounting system and conversion of accounting records. Also, indirect cost study preparation and hospital cost report.
1975--Technical assistance in modifying computer programs. Preparation of revenue manual and cost report for hospital.
1976--Technical assistance in installing new accounting computer program. Preparation of indirect cost study and cost report for hospital. Study for radio station. Assistance for hospital accounting system.

c/1976--A study to determine financial information requirements.

d/1975--Review of data processing activity.

APPENDIX V

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

APPENDIX V

COMPETITION FOR NEGOTIATED
GOVERNMENT PROCUREMENT CAN
AND SHOULD BE IMPROVED
Departments of Transportation;
Commerce; Housing and Urban
Development; Labor; and Health,
Education, and Welfare

D I G E S T

As part of its oversight activities and for reasons discussed in this report, the Congress should require all Federal agencies to provide annual statistics on supplies and services procured through noncompetitive contract and information on actions taken to increase competitive procurements. The Department of Defense currently discloses such information.

Formal advertising and negotiation are the basic methods by which the Government procures supplies and services. By law, agencies should formally advertise for bids whenever possible.

The Congress has historically required that Government purchases of goods and services be accomplished using full and free competition to the maximum extent practicable. Offering all qualified firms the opportunity to compete helps to minimize favoritism and collusion and provides assurance that acceptable products and services are obtained at the lowest prices.

If a procurement office determines that competition is infeasible, purchases may be noncompetitively negotiated. GAO found that many recent noncompetitively negotiated procurements were unjustified.

Excluding the Federal supply schedule and other General Services Administration contracts, civilian agency procurements in 1975 totaled \$16.4 billion; \$4.7 billion or 29 percent was formally advertised and \$11.7 billion or 71 percent was negotiated. (See apps. I and II.) Such a high percentage of negotiated contracts warrants additional safeguards to accomplish the full and free competition the Congress desires and the law stipulates.

Statistics on noncompetitive negotiated procurements were not available; however, GAO developed this information at individual procurement offices. (See p. 2 and app. II.)

GAO surveyed a sample of contracts five major civilian agencies noncompetitively awarded in 1975 to identify the reasons for that method of procurement. The agencies reported that of \$248 million in negotiated procurements, \$158 million or 64 percent was noncompetitively awarded. (See app. II.)

GAO examined 36 noncompetitive contract awards totaling \$10.6 million at the selected procurement offices of the Departments of Commerce; Housing and Urban Development; Transportation; Labor; and Health, Education, and Welfare.

GAO wanted to determine

- the extent of and justification for awarded noncompetitive contracts,
- managerial controls to minimize noncompetitive procurements, and
- improvements needed to increase competition in Government procurement.

Program offices' reasons for noncompetitive procurements generally fell into two cate-

- Contractors' unique capabilities and experience.
- Time constraints mandating that only one contractor be solicited.

Specifically, agencies

- concluded, without seeking other firms, that only one had the sufficient capability or experience to do the job,
- placed unjustified time constraints on procurement offices to award contracts without competition,

- awarded noncompetitive contracts to spend funds available at the end of the fiscal year because if not spent quickly, the funds would be returned to the Department of the Treasury,
- solicited contractors before notifying the procurement offices of their requirements, and
- failed to publish their requirements in the Government's "Commerce Business Daily" before awarding contracts.

Also, GAO found that officials responsible for approving noncompetitive procurements frequently were ineffective in questioning the justification for such procurements. Although this review was limited to five procurement offices in five agencies, GAO believes that the weaknesses identified may exist in other civilian agencies. The Office of Federal Procurement Policy agreed to bring GAO's findings to the attention of other agencies.

RECOMMENDATIONS

The Secretaries of Transportation; Commerce; Housing and Urban Development; Labor; and Health, Education, and Welfare should reduce noncompetitive procurements by (1) eliminating the conditions cited in this report if they are applicable to their procurement offices, (2) requiring that procurement offices be notified as soon as requirements become known to maximize the time available to obtain solicitations, (3) permitting only authorized contracting officials to solicit proposals, and (4) requiring the procurement offices to:

- Publicize all proposed procurements of \$5,000 or more in the "Commerce Business Daily" as soon as requirements are known and before sole-source approval. The public announcement should state the capabilities and experience required for the job.
- Prepare written justifications for all non-competitive procurements over \$10,000 and include, if applicable (a) a description

of efforts to find other firms and the circumstances making competition infeasible, (b) reasons why only one contractor has the capability and experience required, (c) delivery deadlines that only the recommended contractor can meet and an explanation of the urgency, (d) a description of the work and costs for another contractor to provide the agency's requirements, and (e) provisions made or planned to insure competition in the future.

--Prepare and submit to top management annual reports of all noncompetitive procurements over \$10,000. Reports should include reasons for noncompetitive awards and identify procurements that place time constraints on awarding contracts.

GAO recommends also that the Administrator, Office of Federal Procurement Policy, take steps to insure that adequate and uniform regulations are developed to enable all Federal agencies to comply with the national policy to obtain competition whenever possible.

AGENCY COMMENTS

For the most part, the agencies agreed that the conditions cited pertain to Government procurement and with GAO's recommendations. Specifically, the Department of Health, Education, and Welfare observed that the findings are common to Government procurement. The Department established a management review program through which it hopes to achieve needed improvements in procurement practices.

The Department of Housing and Urban Development stated that regulations should allow for exceptions to publishing all procurements over \$5,000 in the "Commerce Business Daily." The Department of Transportation expressed concern that the report did not show its large amount of formally advertised awards. The Office of Federal Procurement Policy considered the procurement regulations essentially uniform and adequate and if properly implemented, would minimize noncompetitive procurements.

That Office has begun actions to rectify an inconsistency between a regulation used by the Department of Defense and one used by civilian agencies. Several Departments, however, questioned the need to report non-competitive procurement statistics to top management.

GAO agrees that regulations or statistics alone will not correct the conditions described. However, an informed top management, aware of the need to limit noncompetitive procurements, would be more likely to make that method the exception rather than the rule.