



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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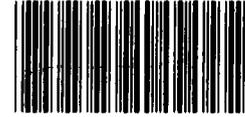
GENERAL GOVERNMENT  
DIVISION

MARCH 4, 1980

B-197162

The Honorable Irvine H. Sprague  
Chairman, Federal Deposit Insurance  
Corporation

AGC00195



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Dear Mr. Sprague:

Subject: Opportunities to further strengthen  
internal auditing in the Federal Deposit  
Insurance Corporation (GGD-80-46) DLG04014

Although the Federal Deposit Insurance Corporation has made significant progress toward establishing an effective internal audit function, some improvements are needed. Our assessment of the Corporation's Office of Corporate Audits (OCA) was made under internal auditing standards widely accepted by private industry and government.

Management has provided OCA with sufficient organizational independence, as OCA reports directly to the Board of Directors. Management has also assigned OCA broad review responsibilities and established an effective mechanism for following up audit report recommendations. OCA has assembled a qualified staff, encouraged staff training, and provided Corporation management with useful reports, which have contributed to changes in management policies and procedures. DLG04016

While progress has occurred, we suggest improvements in six areas:

- Audit report clarity and conciseness. Most OCA report users and our professional writing consultant believe that the clarity and conciseness of reports, particularly in the presentation of audit findings, can be improved.
- Audit report timeliness. OCA report users believe that the reports are of limited usefulness to management because report preparation takes too long to complete.

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- Preparation of written reports. Although OCA officials said that audit results were discussed in exit conferences, 48 percent (29 of 61) of OCA's 1978 completed audit efforts did not result in written audit reports to management, a practice inconsistent with professional internal auditing standards.
- Audit evidence verification procedures. Internal audit supervisors did not regularly document their reviews of evidence supporting report findings and supervisors were uncertain as to who had responsibility for evidence verification.
- Auditor performance evaluation process. Although the OCA performance evaluation process conforms to Corporation policy, OCA audit supervisors did not consistently provide staff auditors with timely, substantive feedback on their performance.
- Monitoring internal audit activity. Although many Budget and Management Committee members raised questions regarding OCA's productivity, the Committee does not require OCA to provide periodic activity reports.

We discussed these issues and potential corrective actions in meetings with the Director of the Office of Corporate Audits and the Chairman of the Budget and Management Committee.

The response to our findings was generally positive, although the Director of OCA took strong exception to our views that his internal audit reports were not timely or clear, noting that these were both highly subjective judgments. Nevertheless, he indicated that OCA has recently given selected auditors additional writing training and plans for the entire office to participate in a writing course in the near future.

OCA has also adopted new procedures for evaluating auditor performance, verifying audit evidence, and preparing written audit reports. The Chairman of the Budget and Management Committee indicated that he would consider asking OCA for periodic activity reports. Although not opposed to reporting on audit status to selected Budget and Management Committee members, OCA officials do not want to report status information to two of the five Budget and Management Committee members who are also auditees, citing potential independence problems. We agree, in principal, that reporting activity

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information to only nonauditees provides for greater independence; however, we found no evidence that the current Budget and Management Committee structure has impaired internal audit independence.

We appreciate the cooperation and courtesy extended to us by Corporation officials during our review.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "A R Voss".

Allen R. Voss  
Director