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STUDY BY THE STAFF OF THE U.S.

General Accounting Office

WHO IS WATCHING THE DEFENSE DOLLARS ?

The Department of Defense does not have a statutory inspector general like those in other major Federal agencies. Instead, the Department has 18 organizations for auditing and investigating its internal operations and Defense contractors. The organizations operate separately and their responsibilities are fragmented among the military services and agencies. For example, the Army has its own internal auditors who are organizationally separate from the Navy and Air Force internal auditors.

The Congress is considering legislation (H.R. 2098 and S. 1932) that would (1) establish a statutory Defense inspector general, (2) consolidate some of the existing Defense audit and investigative units, and (3) give them more independence and clout. GAO supports the concept of this legislation.



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PREFACE

This study was prepared to help the Congress in its consideration of legislation to establish a statutory inspector general organization in the Department of Defense. The House of Representatives has already passed legislation (H.R. 2098) which, among other things, would establish an inspector general organization in Defense similar to those that now exist in 15 civilian agencies. Identical legislation was recently introduced in the Senate (S. 1932).

This study supplements many oral briefings we have given congressional staffs about the various Defense audit and investigative organizations, and how the proposed legislation would change these organizations. In response to the considerable congressional interest in the proposed legislation, we have prepared this staff study for use by members of Congress and their staffs in considering the reorganization of Defense audit and investigative functions. In the study we

- present background information on the principal Defense audit, investigations, inspections, and review organizations;
- summarize findings of earlier studies by us and others on these organizations; and
- discuss the merits of creating a Defense inspector general.



W. D. Campbell
Acting Director
Accounting and Financial
Management Division

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is crucial for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for a systematic approach to data collection and the importance of using reliable sources of information.

3. The third part of the document focuses on the analysis of the collected data. It discusses the various techniques used to identify trends, patterns, and anomalies in the data, and how these insights can be used to inform decision-making.

4. The fourth part of the document discusses the importance of communication and reporting. It emphasizes that the results of the data analysis should be clearly and concisely communicated to the relevant stakeholders, and that regular reports should be provided to keep them informed of the organization's performance.

5. The fifth part of the document discusses the importance of continuous improvement. It emphasizes that the organization should regularly review its processes and procedures to identify areas for improvement and implement changes to enhance its performance.

D I G E S T

Effective management of the Department of Defense, one of the world's largest organizations, requires diverse oversight functions to ensure economical, efficient, and effective operations. This GAO study discusses the various organizations in Defense that perform internal and contract audits, inspections, investigations, and internal reviews, and their respective roles in managing the vast Defense organization.

Altogether, Defense employs 18,000 people in audit and investigative organizations. With a \$500 million budget of their own, these organizations must keep a watchful eye over annual Defense outlays approaching \$180 billion or more. (See p. 1)

Defense is organized into four parts--the Defense-level organizations, which act as a management umbrella, and the Departments of the Army, Navy, and Air Force. Each part has some of the audit and investigative organizations. For instance, the Army has its own internal auditors who are organizationally separate from the Navy and Air Force internal auditors. (See ch. 2)

The Congress is considering legislation (H.R. 2098 and S. 1932) to create a Defense inspector general modeled after civilian agency counterparts. Since 1978 the Congress has set up 15 civilian inspectors general to combat fraud, waste, and abuse in Government. Among other things, the legislation now before the Congress would consolidate some of the existing Defense audit, inspection, and investigative units, and give them more independence and authority. (See ch. 4)

GAO's staff conducted this study to provide background information to the Congress in considering the merits of the inspector general legislation. Because the study presents no new findings or recommendations, GAO did not obtain Defense's comments.

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ABBREVIATIONS

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
CIDC	Army Criminal Investigations Command
DAS	Defense Audit Service
DCAA	Defense Contract Audit Agency
DLA	Defense Logistics Agency
FBI	Federal Bureau of Investigation
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

As the largest Federal department, the Department of Defense requires capable, independent, and objective oversight to regularly examine all aspects of its operations. Auditors, inspectors, investigators, and internal reviewers from 18 major components perform this work. Much consideration has been given to changing the way these components are organized and the way they work, including legislation for an inspector general modeled after civilian agency counterparts set up in 1978.

HOW THE DEPARTMENT OF DEFENSE IS MANAGED

The Department of Defense with its Army, Navy, and Air Force military departments includes about 2 million individuals on active military duty, about 1 million civilian employees, and 2.5 million members of reserve components. These numbers, together with estimated fiscal 1982 budget outlays totaling \$180 billion or more, make the Department of Defense the Federal Government's largest bureaucracy and one of the world's largest organizations.

Under the President, who is the Commander in Chief, the Secretary of Defense exercises direction, authority, and control over the entire Department. He is assisted by a Deputy Secretary, Under Secretaries, Assistant Secretaries, the military Joint Chiefs of Staff, and the military departments' Secretaries and their assistants.

These officials are responsible for Defense's primary mission--to provide the military forces needed to deter war and protect the security of the country. Defense managers are obligated to carry out this mission in the most economical, efficient, and effective manner.

THE ROLE OF AUDIT AND INVESTIGATIVE ORGANIZATIONS

Defense managers are assisted in carrying out their mission by audit, inspection, investigation, and internal review organizations. Although we make some distinctions between the work of each, we refer to these organizations collectively in this study as audit and investigative organizations. Together these organizations employ about 18,000 professional and support personnel and in fiscal 1981 cost about \$500 million to operate. (See apps. I, II, and III.)

These organizations share a unique feature that distinguishes them from other Defense components: They are free from the responsibility of developing and implementing policies for carrying out the Defense mission. They are segregated from these duties to give them the objectivity needed to properly oversee policy adherence and effectiveness. Although each type of audit and investigative

organization has a different approach to its work, the goal of all is to help Defense managers achieve economical, efficient, and effective operations. They must also help Defense managers prevent and detect fraud, waste, and abuse.

The role of audit

Defense uses both internal and contract auditors. The role of internal auditing is to independently and objectively analyze, review, and evaluate existing procedures and activities; to report on conditions found; and, when deemed necessary, to recommend changes or other action for management to consider. Defense has four internal audit organizations; collectively, the scope of their audits includes all of Defense's operations. Because they are under the authority and control of the Department's top managers, these organizations might be influenced to either change the direction of an audit or drop it completely. In 1977, we reported on the need to remove restrictions we found on audit scope. Defense concurred with several of our recommendations. (See ch. 3).

The role of contract auditing in Defense is more specialized than internal auditing and not as free from responsibilities for carrying out the Defense mission. The role of contract auditing is to help managers achieve prudent contracting by giving them financial information and advice on proposed or existing contracts or contractors when the negotiation, administration, and settlement of contract payments or prices are based on cost (both incurred and estimated) or on cost analysis. Contract auditing does not include evaluation of internal Defense operations. The Defense Contract Audit Agency (DCAA) provides almost all contract auditing services for Defense as well as for other Federal agencies.

The role of investigations

The role of the Defense criminal investigative organizations is to inquire into allegations of conduct that is illegal or that violates the Department's regulations. Investigative activities also include crime prevention surveys which seek to determine areas subject to crime and recommend ways to deter crime. Defense has four criminal investigative organizations; collectively, their jurisdiction covers all of Defense's operations.

The role of inspections

Inspections are performed by separate inspector general organizations in the Army, Navy, Marine Corps, and Air Force and in six Defense agencies. The inspectors general in Defense differ

basically from their civil agency counterparts. ^{1/} The civil agency inspectors general are appointed by the President for unlimited terms. They report to and are under the general supervision of the agency head. They also periodically report to the Congress. They can be removed from office only by the President, who must explain to the Congress the reason for any such removal.

The role of the inspectors general in Defense vary but they typically include evaluating economy, efficiency, and effectiveness of operations; inspecting and testing military readiness; and hearing individual complaints by military personnel. Unlike the civil inspectors general, they are not specifically looking for fraud, waste, and abuse. Defense internal audit and investigations, though organizationally separate, carry out many of the functions performed by the civil agency inspectors general. In Defense, inspections are designed to complement but not duplicate audits.

The role of internal review

Internal review groups reporting to Defense managers--typically military base commanders--supplement the Defense internal audit organizations by providing these managers with a capability for identifying and correcting local operating deficiencies. The major internal review groups exist within the Army, Navy, and Marine Corps; however, other Defense organizations may designate individuals to perform similar roles.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this study were to (1) present background information on the principal Defense audit and investigative organizations, (2) summarize findings of earlier reports on these organizations, and (3) discuss the merits of having a statutory inspector general in Defense modeled after those in the civil agencies.

Many studies have been made of the audit and investigative functions, and the Congress is again considering legislation that would affect the functions by creating a statutory inspector general modeled after those in civil agencies. We believe our findings will benefit those who are working on this legislation and provide a foundation for future evaluations of the audit and investigative

^{1/}Public Law 95-452 established inspectors general in 12 civilian agencies: The Departments of Agriculture, Commerce, Housing and Urban Development, Interior, Labor, and Transportation; the Community Services (now defunct), National Aeronautics and Space, Small Business, General Services and Veterans Administrations; and the Environmental Protection Agency Other legislation created inspectors general in the Departments of Energy, Health and Human Services, State, and Education.

functions. In the course of preparing the study, we briefed staff members of the Senate Armed Services and Governmental Affairs Committees and the House Government Operations Committee. We obtained our information from existing literature, including our previous reports and statements on the subject. (See ch. 3 for a summary and app. IV for a list of sources.) We also interviewed officials in several of the audit and investigative organizations.

Since we were not looking for weaknesses in the organizations, we are not reporting new opinions, conclusions, recommendations, or matters for congressional consideration. Also, because we make no recommendations, we did not seek agency comments.

CHAPTER 2

DEFENSE AUDIT AND INVESTIGATIVE

ORGANIZATIONS: WHO THEY ARE AND WHAT THEY DO

The Department of Defense is organized into four parts: the Defense-level organization and the military Departments of the Army, Navy, and Air Force. This chapter discusses each of the principal audit and investigative organizations in terms of its mission, organizational placement, and resources. In addition, Defense has created a number of ad hoc committees for coordinating the audit and investigative organizations. The role of each committee is also described.

DEFENSE-LEVEL AUDIT AND INVESTIGATIVE ORGANIZATIONS

Defense-level organizations include all those not included in the three military Departments. They are the Office of the Secretary, the Joint Chiefs of Staff, the United and Specified Commands, and several other Defense agencies.

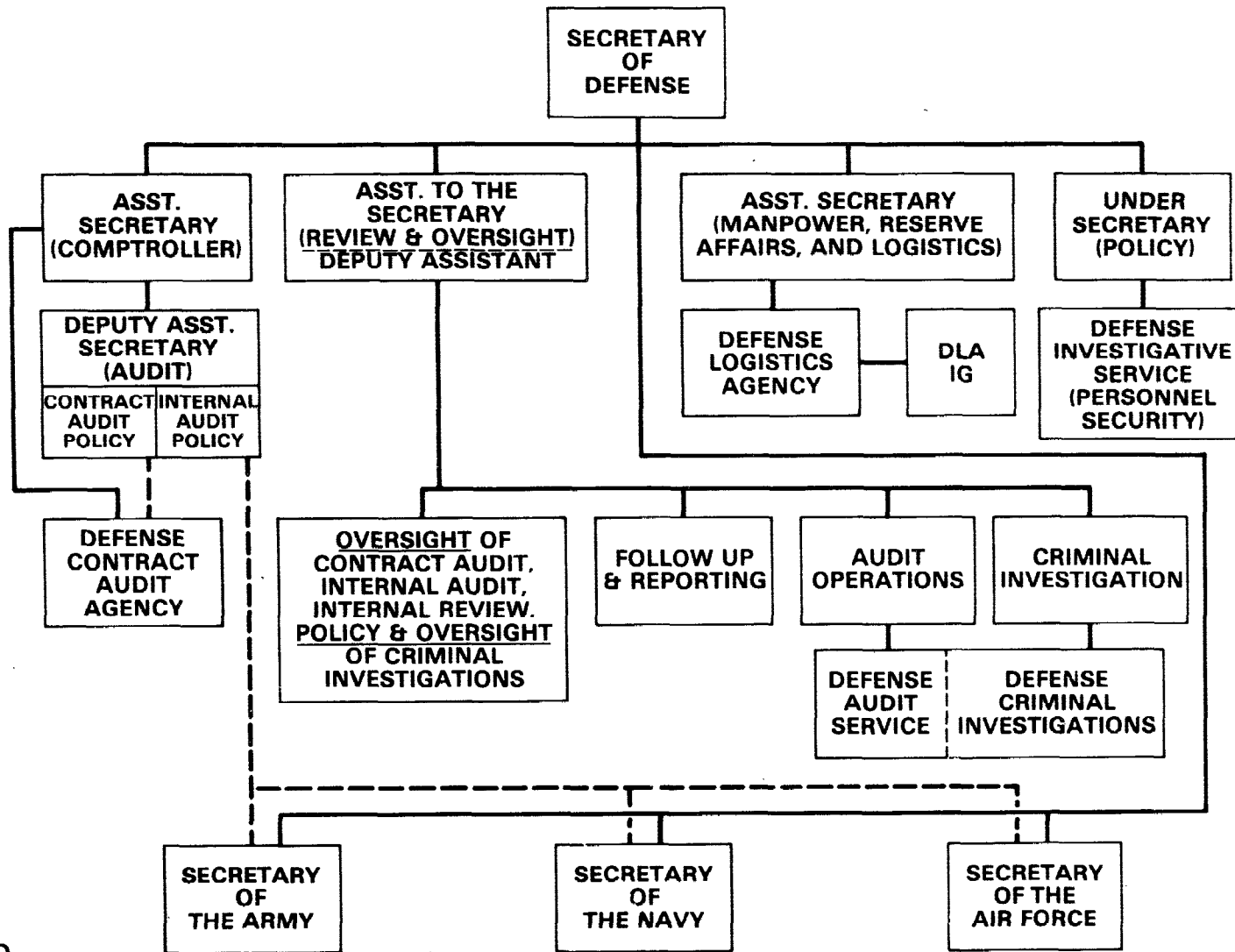
A newly established Assistant to the Secretary for Review and Oversight together with the Comptroller manage the audit and investigative organizations at the Defense level. These organizations are the Defense Audit Service (DAS), a newly organized criminal investigations group, and the Defense Contract Audit Agency. In addition, the Defense Logistics Agency (DLA) has an inspector general organization. Other Defense-level agencies also have inspector general organizations, but we did not include them in this study because of their small size. The chart on the next page shows the relationship of these organizations.

Assistant to the Secretary For Review and Oversight

In April 1981, the Secretary of Defense established the Office of the Assistant to the Secretary for Review and Oversight. The purpose was to centralize oversight of the Department's efforts to detect fraud, waste, and abuse. The Assistant is responsible for:

- Developing policy, maintaining oversight, evaluating programs and performance, and providing guidance Department-wide on criminal investigation activities.
- Managing criminal investigations in the Defense-level organizations.
- Monitoring and evaluating the Department's adherence to principles, policies, and procedures governing internal audit, contract audit, and internal review.

DEFENSE REORGANIZATION CREATING ASSISTANT TO THE SECRETARY (REVIEW & OVERSIGHT)



LEGEND

- - - -** POLICY GUIDANCE
- MANAGEMENT LINE OF AUTHORITY

- Developing policies and evaluating Defense followup actions on internal audit, contract audit, internal review, and GAO findings.
- Exercising direction, authority, and control over DAS.
- Advising the Secretary on incidents of fraud, waste, or abuse in the Department.

Defense Audit Service

The Defense Audit Service is an important tool for the Secretary's review and oversight assistant. Initially under the Assistant Secretary of Defense (Comptroller), DAS was set up in 1976 to do internal audits of Defense-level organizations and audits covering more than one military department. It still has this responsibility under the new Assistant to the Secretary for Review and Oversight, but now has the added responsibility of performing criminal investigations in Defense-level organizations and investigations affecting more than one military department. These investigations had been done by the Defense Investigative Service, whose primary function is to do personnel security investigations. The criminal investigative function will be handled by a separate group within DAS. ^{1/} Defense plans to staff it with 15 civilians from the Defense Investigative Service and 85 new hires.

The work of DAS' 379 civilian auditors and their support staff encompasses the major functions of the Department. At least 125 audits are underway at any given time. For fiscal 1980, DAS issued 143 reports. The following table shows the percentage of direct work-years DAS spent in major Defense functions.

^{1/}Once organized, the investigative function will be chartered as a separate organization, but it will rely on DAS for administrative support.

DAS Work by Audited Function
Fiscal 1980

	<u>Percent of total</u>
Supply management	14.9
Comptroller services	3.6
Management of maintenance and repair	8.0
Management of real and installed property	4.1
Procurement and contract administration	17.1
Personnel management and payrolls	8.7
Nonappropriated fund activities	0.3
Support services	6.1
Research and development	5.6
Automatic data processing systems	4.4
Military assistance program	8.0
Communications	5.3
Transportation	4.3
Intelligence and security	5.9
Readiness	<u>3.7</u>
Total	<u><u>100.0</u></u>

The full effect of DAS audits in terms of financial savings, improvements in operations, and increased program effectiveness is not measurable. However, for fiscal 1980, DAS reported "potential measurable financial benefits" of about \$2 billion.

Assistant Secretary of Defense (Comptroller)

The National Security Act of 1949 (10 U.S.C. 136) established the position of Assistant Secretary of Defense (Comptroller). The Comptroller has responsibility 1/ for developing internal and contract audit policies for the entire Department. Responsibility for monitoring and evaluating compliance with these policies, formerly assigned to the Comptroller, has been reassigned to the Assistant to the Secretary for Review and Oversight.

Significant policies and procedures that have been developed include:

- General Defense policies covering internal and contract audits including the required adherence to audit standards issued by the Comptroller General of the United States.

1/The Comptroller carries out audit responsibilities through a Deputy Assistant Secretary (Audit).

- Policies concerning the organization, responsibilities, and mission of the internal audit agencies.
- Guidance for preparing annual summary reports on internal audit.
- Guidance for development programs, auditor qualifications, and the supervisory structure in the internal audit agencies.
- Procedures for auditing nonappropriated funds.

The Comptroller's audit policy role is a staff function. That is, the Comptroller develops policies for the Secretary, but does not have the authority to direct or control their implementation. This authority belongs to officials in the Defense chain of command. For instance, the Air Force Auditor General supervises actual implementation of the Comptroller's audit policies in the Air Force.

Defense Contract Audit Agency

The Defense Contract Audit Agency is an autonomous agency under the Comptroller's authority, direction, and control. The establishment of DCAA in 1965 brought contract auditing into a single agency. Before that, each military department had done its own contract audits.

DCAA is a unique audit agency. Because contract auditing in Defense is an advisory function, with contract auditors regularly participating in procurement management decisions, DCAA does not have internal oversight responsibilities like those of Defense's internal audit agencies. Its auditors are regarded as one of the group of advisors, including engineers and price analysts, who assist a contracting officer--the principal decisionmaker for managing a Government contract. The agency issues over 50,000 audit reports each year. Many of the reports advise Defense contracting officers on the acceptability of contract prices being proposed to the Government, or of incurred costs being charged to Government contracts. DCAA also provides contract audit services, on a reimbursable basis, to other Government agencies, such as the National Aeronautics and Space Administration and the Department of Transportation.

DCAA is also the only Defense audit agency to report on contractors' compliance with Public Law 87-653, the Truth in Negotiations Act. This law requires a contractor to certify that proposed contract cost data provided to the Government are accurate, complete, and current to the best of the contractor's knowledge at the time a contract is negotiated. The law is designed to make sure the Government has accurate cost data when it negotiates with a contractor. Audits done on this cost data are called defective pricing audits.

During fiscal 1980, DCAA examined incurred costs of \$36 billion and questioned \$1.1 billion of them. In its evaluations of contractor price proposals, it questioned \$11.4 billion of \$112.1 billion examined. As a result of defective pricing audits, the agency recommended \$116.6 million in downward price adjustments to Defense's negotiated contracts. Amounts that DCAA questions usually do not represent moneys due the Government. For example, proposed costs that DCAA questions are often settled before the contract is let. Even when sustained by contracting officers, these questioned costs for certain contract types may not represent possible dollar-for-dollar savings, but they can mean savings in the contractors' fees, which may be a percentage of the pricing estimates. No figures on total savings due to DCAA's audits are readily available.

DCAA is Defense's largest audit organization. It employs about 3,400 civilian auditors and their support staffs. Offices are located in many parts of the world with the auditors often working at contractors' sites. The following table shows the percentage of DCAA's direct work-years spent on each type of audit. About 18 percent of DCAA's resources are spent on work for other Federal agencies and on foreign military sales. In both cases the work is done on a reimbursable basis.

DCAA Work By Audit Type
Fiscal 1980

	<u>Percent</u>
Preaward price proposals	45.0
Incurred costs	39.6
Defective pricing	3.6
Other work	<u>11.8</u>
Total	<u>100.0</u>

Defense Logistics Agency Inspector General

The Defense Logistics Agency comes under the authority, direction, and control of the Assistant Secretary of Defense (Manpower, Reserve Affairs, and Logistics). It provides centralized support for the material readiness of the military. Since it was created in 1962, the agency has had an inspector general responsible for inspecting operations, investigating noncriminal mismanagement and improper conduct, and handling employee complaints.

The 27 military and 47 civilian inspectors spend most of their time inspecting operations. In fiscal 1979, the DLA Inspector General made 309 inspections. Inspections can be general surveys done by teams of 20 to 40 inspectors examining all major functions related to the mission of a single unit or installation. They can also be surveys of a single function at multiple locations. As examples:

--A general inspection may take about a week and examine personnel, logistics, training, and safety at a single installation.

--A survey inspection may last several months and focus on telephone credit card abuse at a number of different units.

Investigations or inquiries are made to evaluate allegations of mismanagement or improper conduct. An example would be a probe into a contractor's allegation of improper Defense contract administration. The Inspector General does not investigate criminal, intelligence, or security matters. These are left to the Defense investigative organizations. For fiscal 1979, the Inspector General reported 15 investigations and inquiries.

The Inspector General also has a system for responding to complaints and requests for assistance from both military and civilian DLA personnel; 914 complaints and requests were handled in fiscal 1979. Though complaints are numerous in relation to inspections and investigations, they are usually resolved by referring the complainant to the proper person in the chain of command.

ARMY AUDIT AND INVESTIGATIVE ORGANIZATIONS

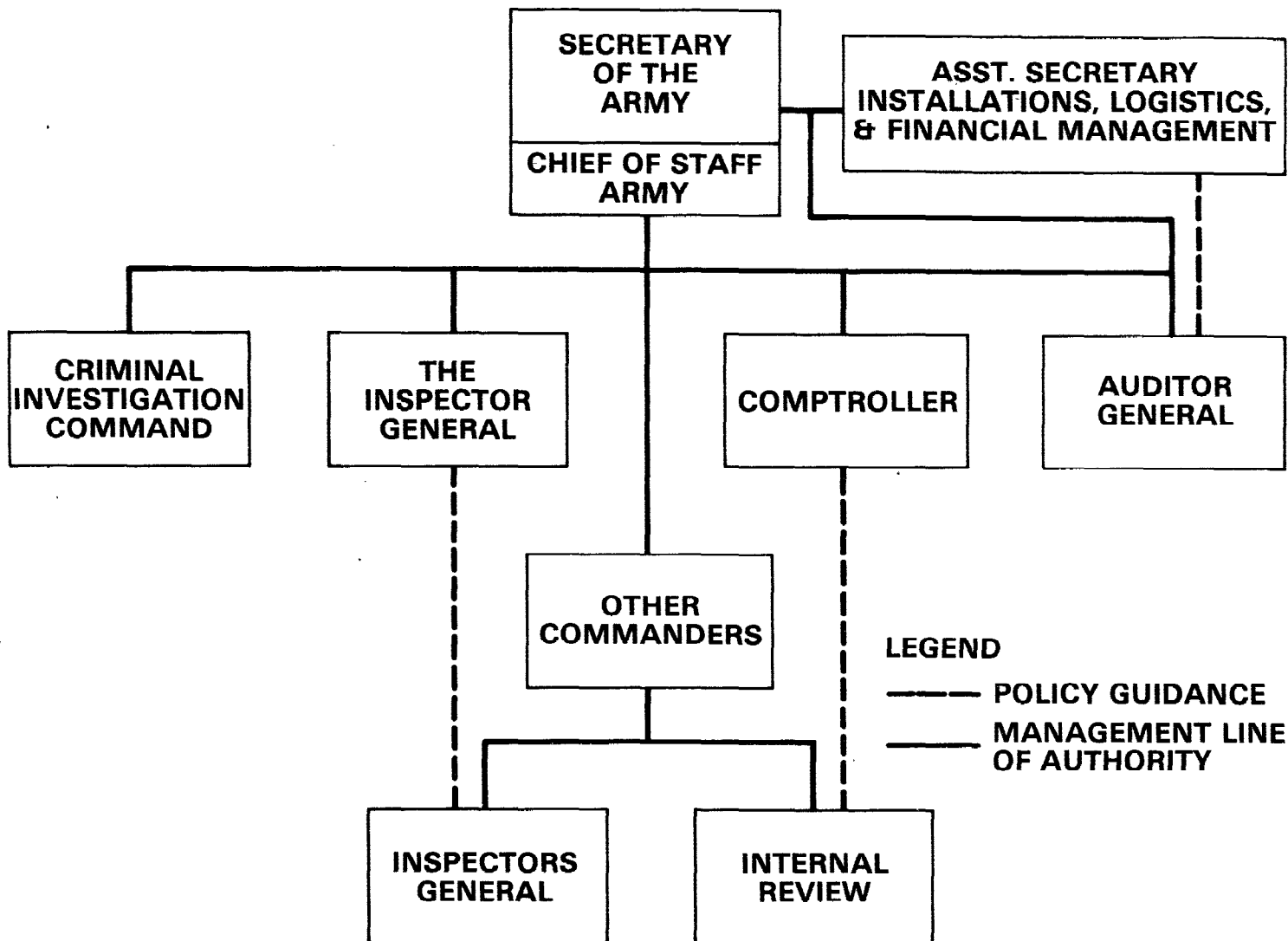
Four groups oversee Army operations. These are the Army Audit Agency (AAA), the Army inspector general system, the Army internal reviewers, and the Army Criminal Investigations Command. The chart on the next page shows the relationship of these organizations.

Army Audit Agency

The Army Audit Agency (AAA) is an internal audit organization whose mission is to furnish information, analyses, appraisals, and recommendations pertinent to management's duties and objectives. Its head is the Army Auditor General, who reports concurrently to the Secretary of the Army and the Army Chief of Staff. The Auditor General is also a civilian member of the personal staff of the Chief of Staff--the Army's top ranking military official. The Assistant Secretary of the Army (Installations, Logistics, and Financial Management) provides the Auditor General with policy and technical advice. For example, the Assistant Secretary recently advised the Auditor General that top Army management agrees with AAA's policy for releasing audit reports outside the Army.

The 848 AAA civilian auditors and support staff are authorized to audit any Army function. About 370 audits are underway at any given time. For fiscal 1980, AAA issued 422 reports. The table on page 13 shows the percentage of AAA's direct work-years spent in the Army's major functions.

ORGANIZATION OF ARMY AUDIT AND INVESTIGATIVE COMPONENTS



AAA's Work By Audited Function
Fiscal 1980

	<u>Percent of total</u>
Supply management	15.2
Comptroller services	20.1
Management of maintenance and repair	1.7
Management of real and installed property	2.9
Procurement and contract admin- istration	9.0
Personnel management and payrolls	20.8
Nonappropriated fund activities	8.3
Support services	7.2
Research and development	5.0
Automatic data processing systems	4.0
Military assistance program	--
Communications	2.7
Transportation	2.1
Intelligence and security	--
Other	<u>1.0</u>
Total	<u><u>100.0</u></u>

As in almost all internal audit organizations, the full effects of AAA's audits in terms of financial savings, improvements in operations, and increased program effectiveness are not measurable. Although some audit benefits are measurable, AAA did not believe its measure of fiscal 1980 benefits was sufficiently reliable to be included in this study.

The Army inspector general system

The Inspector General of the Army inquires into, and reports to the Chief of Staff and Secretary of the Army about matters affecting mission performance and the state of economy, efficiency, discipline, and morale. The Congress created the position of the Army Inspector General in 1777.

The Inspector General heads the Army Inspector General Agency, which focuses its attention on top management concerns, and provides guidance to inspectors general who report to lower echelon commanders. Together, these two groups make up a decentralized Army inspector general system which inspects activities, investigates noncriminal allegations of impropriety or problems, listens to grievances and serves as a mediator in resolving them, and evaluates corrective actions taken as a result of audits. In fiscal 1979, the Army reported about 9,200 inspections, 1,900 investigations, 48,600 grievances, and 145 audit followup evaluations.

The Army has no career development program for inspectors general. Its approximately 600 military inspectors are drawn from the officer corps at large to serve for a period of not more than 3 years. This rotational system is intended to keep the inspectors in touch with the latest Army ideas. Civilians do not serve as inspectors; however, they do hold administrative and professional positions, such as auditors and management analysts, throughout the inspector general system. The system included about 1,500 personnel as of September 30, 1980.

Army internal review

Commanders of major commands and installations have their own auditors for evaluating the activity's effectiveness, economy, and efficiency, or for otherwise acting as "trouble shooters." To differentiate their work from that of AAA, which is primarily a tool of the Army's top management, the commanders' audit function is referred to as internal review. Internal reviewers usually work under the command's or installation's comptroller. Policy guidance comes from the Army Comptroller with oversight by the Auditor General.

Internal review work can vary significantly because it reflects the interest of individual commanders. In general, however, internal reviewers concentrate on comptroller activities, nonappropriated fund activities, audit compliance, and supply and support services.

The Army has about 1,000 internal reviewers, almost all of whom are civilians. The exact number at any one time is not known because management of the internal reviewers is not centralized.

Army Criminal Investigation Command

The Army Criminal Investigation Command's (CIDC's) primary mission is to investigate criminal matters for the Department of the Army. Because the military is governed by the Uniform Code of Military Justice, much of CIDC's investigative work deals with societal crimes, such as assault and theft from individuals, and institutional crimes committed against the Government, such as fraud. CIDC also performs crime prevention surveys to detect crime and eliminate conditions conducive to criminal activity. CIDC investigators do not handle intelligence-related matters, such as espionage, or management irregularities. The former are handled by the appropriate military intelligence agency. The latter are investigated by the Army inspector general system.

CIDC is one of the Army's major commands and is under the supervision of the Chief of Staff. Its worldwide operations are centralized so that field units are under the authority, direction, and control of the command.

CIDC's investigative jurisdiction is shaped in part by other organizations such as the Military Police Corps and the Federal Bureau of Investigation (FBI). Generally, CIDC will investigate more serious crimes than will the military police. Jurisdictional concerns between the FBI and CIDC are delineated in a 1955 memorandum of understanding between the Departments of Justice and Defense. The memorandum's terms give CIDC investigative responsibility when only individuals subject to the Uniform Code of Military Justice are involved. In all other instances, the FBI may assert its investigative jurisdiction. When the FBI declines to assert jurisdiction, CIDC can conduct the investigation.

NAVY AUDIT AND INVESTIGATIVE ORGANIZATIONS

Seven groups provide oversight of Navy and Marine Corps operations. These are the Naval Audit Service, the Navy inspector general system, the Navy internal reviewers, the Naval Investigative Service, the Marine Corps inspector general system, the Marine Corps Field Audit Service, and the Marine Corps internal reviewers. The chart on page 16 shows the relationship of these organizations.

Naval Audit Service

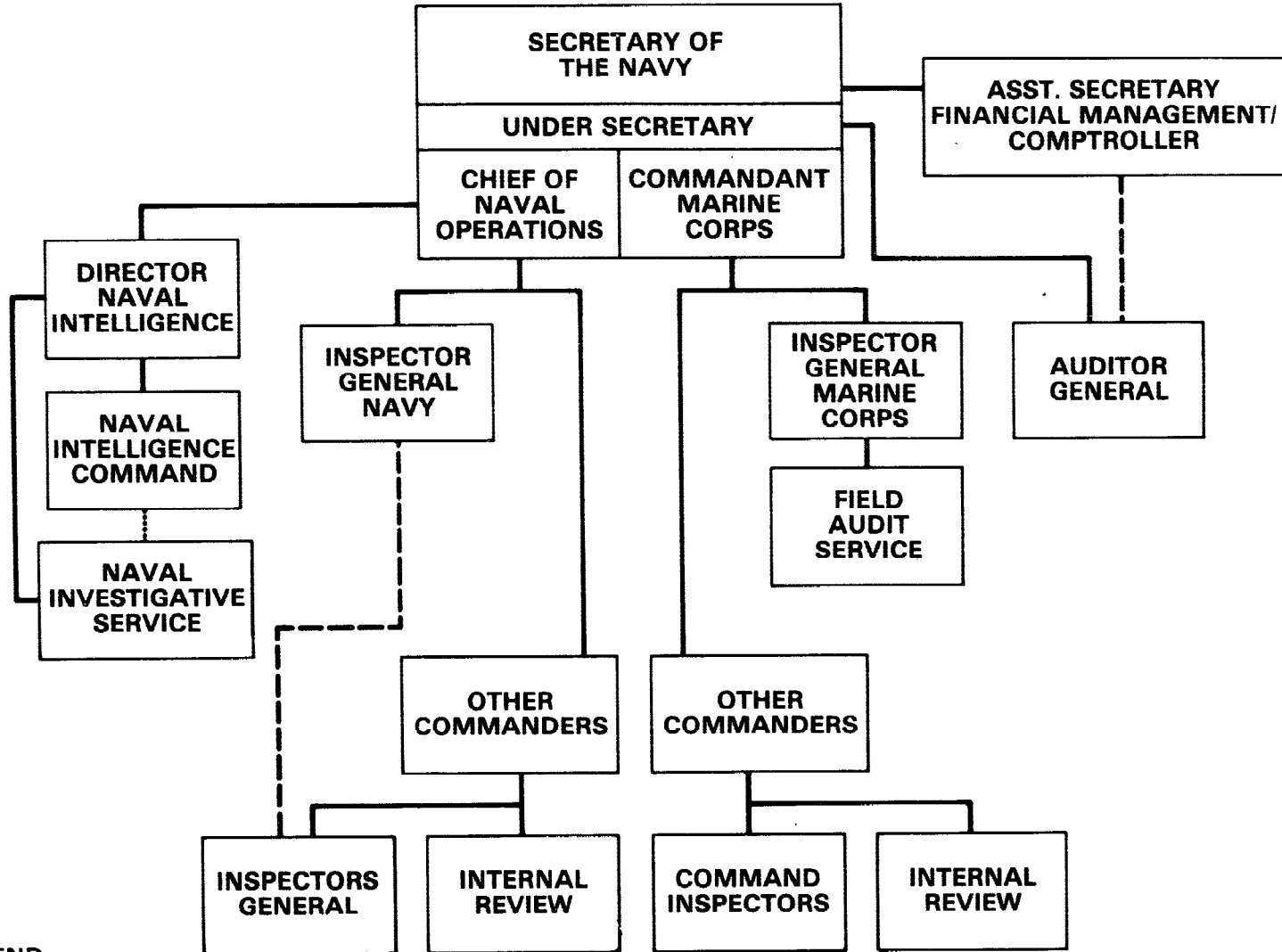
The Naval Audit Service is the centralized internal review organization for the Navy and Marine Corps. Its head is the Navy Auditor General, a civilian, who reports to the Under Secretary of the Navy with guidance from the Assistant Secretary for Financial Management/Comptroller.

The approximately 500 civilian auditors and their support staff are authorized to audit any Navy or Marine Corps function. For fiscal 1980, the Audit Service issued 518 reports. The following table shows the percentage of the Naval Audit Service's direct work-years spent in the Navy's major functions.

Naval Audit Service's Work By Audited Function
Fiscal 1980

	<u>Percent of total</u>
Supply management	12.0
Comptroller services	23.3
Management of maintenance and repair	7.5
Management of real and installed property	5.4
Procurement and contract administration	12.6
Personnel management and payrolls	7.1
Nonappropriated fund activities	1.8
Support services	10.6
Research and development	1.5
Automatic data processing systems	6.6
Military assistance program	0.1
Communications	0.7
Transportation	1.7
Intelligence and security	0.6
Other	<u>8.5</u>
Total	<u>100.0</u>

ORGANIZATION OF NAVY AUDIT AND INVESTIGATIVE COMPONENTS



LEGEND

----- POLICY GUIDANCE

..... BUDGET REVIEW

———— MANAGEMENT LINE OF AUTHORITY

All benefits of Naval Audit Service audits are not measurable in dollars because they involve operational improvements and increased program effectiveness. The Audit Service reported measurable fiscal 1980 savings of about \$14 million.

The Navy inspector general system

The Navy inspector general system is decentralized and designed primarily to assess operational and administrative effectiveness. The system was established in 1942 to keep the Congress and the Secretary of the Navy informed of the Navy's condition and needs. The system's main elements are the Naval Inspector General and individual commanders at the Navy's various administrative and operational levels of command.

The Naval Inspector General, who is a military member of the Chief of Naval Operations staff, performs inspections only at the upper levels of the Navy and accounts for about 20 percent of the inspection system. Other duties include coordinating and providing broad supervision and general guidance for all Navy inspections, investigating noncriminal improprieties, and assisting in resolving personnel grievances.

The remaining 80 percent of inspections coverage is handled by commanders of each organizational level who inspect the headquarters of their immediate subordinate activities. Commanders usually designate chief inspectors or inspectors general who supervise inspections in addition to their regular duties. Commanders rarely designate an inspections staff; temporary inspectors do the work and then return to their regular duties.

About 30 full-time and 130 temporary personnel, both civilian and military, work with the Naval Inspector General. An additional 120 full-time and 2,400 temporary personnel work with other tiers in the system. The full-time inspectors rotate to other Navy duties after a 2- to 3-year tour of duty. Since the system is decentralized, statistics were not readily available on workloads or numbers of reports.

Navy internal review

In a system similar to the Army's, local Navy commanders often have their own audit staffs who work apart from the departmental internal audit organization and provide a trouble shooting capability to identify and correct local operational deficiencies. Usually, the Navy's internal reviewers work under the local comptroller's supervision. No policy guidance for internal review has come from the departmental level, but Navy officials in the Comptroller's office told us that they were initiating an internal review policy.

The number of Navy internal reviewers has been reported as between 380 and 500, but no count is exact because the reviewers

are so decentralized. The Navy's internal review groups spend their time as follows.

Navy's Internal Review Time
by Area of Coverage
May 1, 1980

	<u>Percent of total</u>
Command mission	25
Financial	27
Other support	9
Nonappropriated funds	25
External audit and internal review followup and compliance	11
Miscellaneous	<u>3</u>
	<u>100</u>

Naval Investigative Service

The Naval Investigative Service has provided criminal investigative and counterintelligence services since 1966 to all Department of the Navy activities, which include the Marine Corps. The centralized agency reports to the Director of Naval Intelligence, who works for the highest military officer in the Navy--the Chief of Naval Operations.

Like the Army's CIDC, the Naval Investigative Service investigates crimes covered by the Uniform Code of Military Justice as well as crimes by civilians against the Government. The 1955 memorandum of understanding between Justice and Defense (see p. 14) also covers the Service's jurisdiction. The Naval Investigative Service also performs surveys to detect activities susceptible to fraud and other crimes.

Unlike CIDC, the Naval Investigative Service provides counterintelligence services. This includes the investigation of sabotage, espionage, subversive activities, and military defections. About 20 percent of the agency's workload is related to counterintelligence matters. The remaining 80 percent consists of criminal investigations. Twenty percent of agent resources are devoted to investigating fraud.

Though headed by a Navy officer, the Naval Investigative Service is composed largely of civilian personnel. Of the 975 persons working there as of September 30, 1980, 200 were military and 775 were civilians.

The Marine Corps inspector general system

The Marine Corps inspector general system serves as the Commandant's eyes and ears. For maximum effectiveness, the system has two parts--one centralized and one decentralized. The centralized organization includes the Inspector General of the Marine Corps, an Inspection Division, and the Field Audit Service. ^{1/} This part conducts inspections as directed by the Commandant and audits all Marine Corps nonappropriated fund activities except the post exchanges, which have their own internal auditors. Inspections usually last only 1 to 7 days. Guidelines or checklists are used to determine compliance with procedures. The inspection reports do not contain recommendations. The Inspector General also takes complaints from individual marines, known as "request mast petitions," and investigates allegations of misconduct. Staffing as of September 30, 1980, was 4 civilians and 20 military personnel.

The Field Audit Service audits about 150 nonappropriated fund activities with total revenues of about \$100 million. These activities include officer and enlisted personnel clubs; rod and gun clubs; and welfare, recreation, and chapel organizations. As of September 30, 1980, the Field Audit Service staff numbered 120--all military personnel.

The decentralized part of the inspector general system serves subordinate commanders. The command inspectors are responsible only to the commanders--who determine the scope, frequency, and emphasis of inspections. The inspectors also assist commanders in handling request mast petitions. Because of the system's decentralization, staffing statistics for the command inspectors were not readily available.

Marine Corps internal review

Field installations in the Marine Corps have internal reviewers, a structure which enables commanders to examine known or potential problem areas that impair the economy or efficiency of operations. The internal reviewers are decentralized and assigned to bases under the supervision of the base comptroller. They receive no supervision from higher levels.

As of September 30, 1980, the Marine Corps had 77 internal reviewers--30 civilian and 47 military.

^{1/}In July 1981, the Field Audit Service was moved to the Marine Corps' Fiscal Division, which is not a part of the inspector general system. The chart on p. 16 was prepared before this change was made. The Service's work remains unchanged, however. A Marine Corps official told us that consideration is being given to making the Service one of the base-level internal review organizations.

AIR FORCE AUDIT AND
INVESTIGATIVE ORGANIZATIONS

Three organizations provide oversight of Air Force operations. These are the Air Force Audit Agency (AFAA), the Air Force inspector general system, and the Office of Special Investigations. The chart on page 22 shows the relationship of these organizations.

Air Force Audit Agency

The Air Force Audit Agency provides internal audit services for all levels of the Air Force. Its head is the Air Force Auditor General, a civilian who reports to the Secretary of the Air Force and gets technical guidance from the Assistant Secretary for Financial Management.

Unlike the other military departments, the Air Force does not have internal reviewers. Instead, AFAA serves subordinate commanders' requests for audit assistance. Fifteen percent of audit time is allotted to this service, but typically only about one-third of the allotment is used. On these audits, reports that do not uncover serious irregularities may be issued directly to the subordinate command rather than to higher level management.

AFAA has a higher proportion of military to civilian auditors than the other Defense internal audit organizations. As of September 30, 1980, AFAA had 245 military and 687 civilian personnel.

For fiscal 1980, AFAA issued 2,400 reports. The following table shows the percentage of AFAA's direct work-years spent in the Air Force's major functions.

AFAA's Work By Audited Function
Fiscal 1980

	<u>Percent of total</u>
Supply management	21.2
Comptroller services	9.5
Management of maintenance and repair	10.9
Management of real and installed property	6.2
Procurement and contract administration	9.3
Nonappropriated fund activities	3.6
Personnel management and payrolls	8.0
Support services	6.9
Research and development	2.3
Automatic data processing systems	3.4
Military assistance program	1.0
Communications	1.5
Transportation	4.2
Intelligence and security	1.1
Other	<u>10.9</u>
Total	<u>100.0</u>

As in almost all internal audit organizations, the full effects of AFAA's audits in terms of financial savings, improvements in operations, and increased program effectiveness are not measurable. For fiscal 1980, AFAA reported validated cost avoidance of about \$399 million.

The Air Force inspector general system

The Inspector General of the Air Force, a military officer, serves the Secretary and Chief of Staff of the Air Force by reporting on the strengths and weaknesses of all Air Force activities and making recommendations for correcting problems. Specifically, the Inspector General is responsible for all Air Force inspections; for the safety, investigative, counterintelligence, and complaint functions; and for helping ensure that Air Force resources are effectively and efficiently managed. These responsibilities are broader than those of the inspectors general of the other military departments.

Three distinct organizations are under the direct control of the Air Force Inspector General: the Inspection and Safety Center, the Office of Security Police, and the Office of Special Investigations. In addition to these organizations, the system includes subordinate inspectors general assigned to local commands and separate operating agencies. Ninety percent of inspections personnel are at this level. They receive policy guidance from the Air Force Inspector General and their inspection duties are in addition to other assigned duties.

The Inspection and Safety Center performs the inspection, safety, and complaint functions for the Inspector General. Areas of responsibility include operational readiness, medical capabilities, nuclear safety, and aerospace safety. Ten percent of the inspections personnel are at this level, and they serve full time for 2 years.

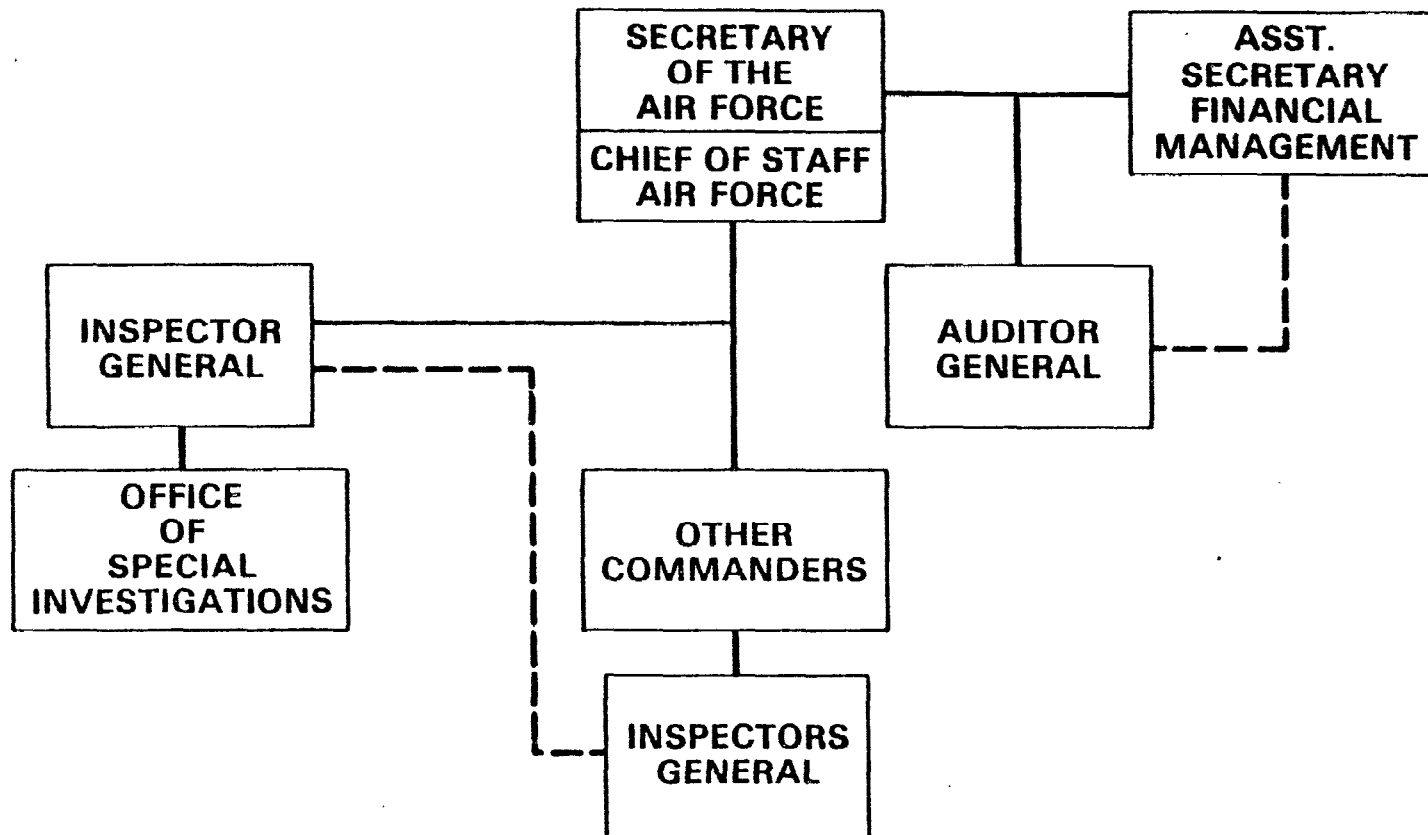
The Office of Security Police is responsible for policies and procedures governing base defense, maintenance of law and order, and vehicle traffic management.

As of September 30, 1980, the inspector general system, excluding the Office of Special Investigations, was authorized 1,367 military and 154 civilian personnel.

Office of Special Investigations

The Office of Special Investigations provides the Air Force with criminal and counterintelligence support. It also performs fraud prevention surveys to detect fraud or vulnerability to fraud. Like Defense's other criminal investigative organizations, the Office of Special Investigation's jurisdiction in criminal matters is governed by an agreement with Justice. Operations are centralized

ORGANIZATION OF AIR FORCE AUDIT AND INVESTIGATIVE COMPONENTS



LEGEND

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under the control of a director. Local commanders, however may be assisted in administrative investigations such as the debarment of contractors.

About two-thirds of the Office's workload consists of criminal investigations, including fraud. About 20 percent of investigative staff-hours are spent on fraud. Counterintelligence accounts for about one-third of the workload.

The Office of Special Investigations is composed largely of military personnel. As of September 30, 1980, the agency was authorized 1,906 personnel, of which 1,540 were military and 266 were civilian.

COORDINATING COMMITTEES

To coordinate the audit and investigative organizations, Defense created several committees. The following table shows the major committees by name, function, and membership.

Committee Formed to Coordinate
Defense Audit and Investigative Organizations

<u>Name</u>	<u>Function</u>	<u>Membership</u>
Department of Defense Audit Chiefs Council	Discuss audit policies and other topics of significant interest.	Deputy Assistant Secretary of Defense (Audit) Chiefs of Defense internal audit agencies Director, DCAA
Federal Audit Executive Council	Discuss audit policies and other issues.	Deputy Assistant Secretary of Defense (Audit) Directors of Federal audit agencies in the Washington area.
Department of Defense Joint Audit Planning Committee	Provide forum for planning and coordi- nating quarterly audit plans among Defense audit organizations.	Audit planning and policy personnel from the Office of the Deputy Assistant Secretary of Defense (Audit) Planners from the Defense internal audit agencies.
24 Army Audit Policy Committee	Coordinate audit, inspection, investi- gation, and review activities in the Army.	Assistant Secretary of the Army (Installations, Logistics, and Financial Management) Deputy for Management Systems Army Auditor General Army Inspector General Commander, CIDC Comptroller of the Army Director of the Army Staff Director of Management, Office of the Chief of Staff
Naval Internal Audit Review Group	Increase top management involvement in audits and discuss significant topics.	Under Secretary of the Navy Assistant Secretaries of the Navy Vice Chief of Naval Operations Assistant Commandant of the Marine Corps General Counsel of the Navy Navy Auditor General
Air Force Audit, Inspection and Investigation Council	Coordinate efforts to detect fraud, assess fraud trends, and make recom- mendations for corrective actions.	Air Force Auditor General Commander, Air Force Inspection and Safety Center Commander, Air Force Office of Special Investigations

Navy Audit, Inspection
Investigation Coordinating
Group

Evaluate audit, inspection, and investi-
gation procedures and serve as a princi-
pal coordinating mechanism for fraud,
waste, and abuse matters.

Naval Inspector General
Representatives from the Navy's Office of
General Counsel
Inspector General, Marine Corps
Inspector General, Naval Audit Service,
Naval Investigative Service, and Deputy
Comptroller of the Navy

Defense Economic Crime
Council

Exchange information concerning in-
vestigative techniques and trends in
white collar and related crime.

Representatives from the Defense Criminal
Investigative Service (DAS), Army CIDC,
Air Force Office of Special Investigations,
and Naval Investigative Service

(Unnamed)

Coordinate investigative activities
in the Defense Logistics Agency by
discussing common problems, crime
prevention surveys, and similar
topics.

Defense Logistics Security Officer
Representatives of Defense's investigative
agencies and the DLA inspector general

Steering Group on Over-
sight of Defense
Activities (Group is
inactive)

Establish and implement projects and
programs to prevent and control fraud
and waste.

Deputy Secretary of Defense
Under Secretary of Defense (Policy)
Under Secretary of the Army, Navy, and
Air Force
Assistant Secretary of Defense (Comptroller)
Defense General Counsel

Defense Council on
Integrity and Manage-
ment Improvement

To find ways to run the Defense es-
tablishment in a prudent and busi-
nesslike manner.

Deputy Secretary of Defense
Other key officials from the Office of the
Secretary
Management representatives from the military
services
Chiefs of Defense audit, inspection, and
investigative organizations

CHAPTER 3

PAST STUDIES AND REPORTS

Department of Defense audit and investigative organizations have been studied by the Congress, the executive branch, and GAO. This chapter summarizes what we consider to be the most important findings, recommendations, and changes resulting from the studies and audits that remain relevant today.

1980 DEFENSE TASK FORCE

The Congress omitted Defense from the 1978 legislation authorizing statutory inspectors general in a number of Federal agencies. Instead, the legislation required the Secretary of Defense to establish a task force to study the operations of Defense audit, inspection, and investigative components.

The Task Force on Evaluation of Audit, Inspection, and Investigative Components, with members from business, military and law enforcement backgrounds, issued its final report in May 1980. That report described the mission and activities of Defense's audit and investigative organizations and recommended changes to improve their effectiveness. Defense's structure of command and control, which delegates decisionmaking authority and accountability to commanders at every level, was emphasized by the Task Force and cited as a reason for Defense's large number of separate audit and investigative functions.

Several factors were considered of primary importance by the Task Force:

- Internal audit, inspection, investigation, and internal review resources are management tools whose value derives from their ability to provide studies and analyses not available elsewhere.
- Review components must be sufficiently independent. Differences in the roles of audit and investigative components dictate employment of varying mechanisms to provide fair, accurate, and objective reports and analyses.
- Audit and investigative components should not unnecessarily overlap or duplicate each other's activities. At the same time, all segments of the Department must receive adequate review attention.
- Sufficient coordination and cooperation must take place among the various review components to ensure maximum efficiency, economy, and effectiveness. A method should be devised for identifying fraud, waste, and other serious problems.

The report offered three principal recommendations:

- (1) Defense audit and investigative organizations should not be centralized because of the Department's size and complexity, the uniqueness of its mission, and the need to satisfy several separate management echelons.
- (2) Defense should not be included under the Inspector General Act of 1978 because an inspector general under this legislation would be independent of the Secretary of Defense and not solely responsible to Defense's management team.
- (3) Instead of an inspector general, an Under Secretary of Defense for Review and Oversight responsible for audits and investigations, reporting to the Secretary and Deputy Secretary of Defense, should be appointed.

Appointment of an Under Secretary of Defense as recommended by the Task Force would require legislation. In April 1981, Secretary of Defense Caspar W. Weinberger established an Assistant to the Secretary of Defense for Review and Oversight whose responsibilities we discussed in chapter 2. This action required no legislation.

1970 BLUE RIBBON DEFENSE PANEL

The Blue Ribbon Defense Panel was convened by President Nixon as part of a comprehensive study of Defense management. At the request of the Panel, an advisory committee from the American Institute of Certified Public Accountants studied auditing within Defense. The committee saw a number of areas that could be improved.

In a 1970 report, the committee addressed possible centralization of Defense's seven audit organizations. The advisory committee saw advantages in having several organizations--(1) it makes each audit group responsive to its own military department or Defense agency and (2) it gives each organization an internal audit capability with which to monitor attainment of objectives and policies. However, the committee saw greater advantages in further centralization of Defense's internal auditing functions:

- A stronger capability for monitoring the management of the individual military services.
- More efficient and better use of professional personnel.
- Better opportunities to staff and increase audit independence.
- More control over activities and functions that involve more than one department or agency.

The committee stated that at the Secretary of Defense level (above the military departments and Defense agencies) the internal auditing effort lacked sufficient size and power to provide the desirable coordination, audit coverage, and leadership. The committee could see the possibility of full centralization of departmental audit organizations.

That has not happened. Instead of completely centralizing audits, Defense has responded by creating (1) the Defense Audit Service, through the consolidation of two audit organizations which served Defense-level management and (2) an Office of the Assistant to the Secretary of Defense for Review and Oversight (established in 1981). The Congress is also considering including Defense under the Inspector General Act of 1978. (See ch. 4.)

GAO REVIEWS OF AUDIT AND INVESTIGATIVE ORGANIZATIONS

Since 1977 we have evaluated Defense's internal audit, contract audit, and inspector general operations. Appendix IV is a complete list of our reports. The following are summaries of our reviews.

Internal audit agencies

In 1977, we reported on the four internal audit agencies-- Defense Audit Service, Army Audit Agency, Naval Audit Service, and Air Force Audit Agency. Among other things we recommended that

- staff capabilities be brought into line with workload;
- audit be placed at the highest organizational levels;
- scope of audits be unrestricted so that generally accepted audit standards related to independence and reporting can be met;
- military personnel in key positions, especially auditors general, be replaced with civilian personnel to meet generally accepted audit standards covering independence and qualifications; and
- followup systems applicable to audit findings and recommendations be strengthened.

Defense generally agreed with our recommendations and took corrective actions. Audit agencies were elevated in departmental hierarchy and some changes were made to remove restrictions on the scope of audits. Civilians now occupy all auditor general positions.

Defense Contract Audit Agency

According to a 1979 report we issued on DCAA's effectiveness, the agency often was not given enough time to do an effective audit

and sometimes was not allowed access to contractor records that are needed to perform an effective audit. Also, contracting officers frequently did not consider the agency's findings when negotiating contract prices.

Defense generally agreed with our recommendations to make DCAA's audit role more effective. For instance, it agreed to remind contracting officers of the need to have contract auditors review all significant new information before negotiations are held, except where time constraints on the acquisition action make this totally impracticable. The need for prompt support of contract auditors in obtaining necessary access to records was likewise strongly emphasized to contracting officers. Defense reported that procedures were being developed to reinforce controls within acquisition management to ensure that the results of negotiations are provided to DCAA.

Inspectors General

We reported on Army, Navy, Air Force, Marine Corps, and Defense Logistics Agency inspector general operations in 1979. These were some of our recommendations:

- Underlying causes of problems should be identified.
- Reporting of minor deficiencies should be eliminated or at least reduced.
- Use of civilians throughout the system should be increased.
- Overlaps and duplications of inspections should be reduced, if not eliminated, by coordinating the work of inspectors general and other audit or review groups.

Each of the inspector general organizations had specific areas that could be improved. We made these recommendations:

- The Air Force should stabilize top management by requiring military inspector general personnel to complete their tours of duty and by having civilians back up these personnel to promote continuity.
- The Army should provide more training to temporary inspectors and promote more objectivity in inspection work by using inspectors that do not have routine working relationships with the unit being inspected.
- The Navy should expand its inspection of lower level activities. Provision should be made to refer significant problems to the Naval Inspector General.
- The Marine Corps should reduce both its staffing and the frequency of its noncombat inspections.

--The Defense Logistics Agency should concentrate on systems problems, coordinate with DAS, and use more properly trained temporary inspectors.

Defense officials generally agreed with our recommendations. For example, the Army, Navy, and Air Force inspector general organizations agreed to revise their instructions to field inspectors requiring the instructors to identify the underlying causes of problems. The Army and Air Force told us that they made the change. A Navy official said in October 1981 that it has drafted such instructions, although plans for issuing them are indefinite.

CHAPTER 4

AN AUDITOR GENERAL FOR DEFENSE

CAN HELP FIGHT FRAUD, WASTE, AND ABUSE

The 97th Congress is considering legislation that would amend the Inspector General Act of 1978 to establish inspectors general in several more agencies, including the Department of Defense. ^{1/} We believe that an inspector general in Defense as envisioned by this legislation--with a few modifications--would result in improved internal controls and better congressional oversight of Defense activities.

H.R. 2098 and S. 1932 WOULD ESTABLISH A DEFENSE INSPECTOR GENERAL

As passed by the House of Representatives on May 19, 1981, H.R. 2098 would amend Public Law 95-452 (the Inspector General Act of 1978) by including a provision to establish a statutory office of inspector general in Defense modeled after the 15 statutory civil agency inspectors. The inspector general, to be appointed by the President with the advice and consent of the Senate, would be under the general supervision of the Secretary or Deputy Secretary. However, neither the Secretary nor Deputy Secretary could prevent the inspector general from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation. On December 10, 1981, identical legislation (S. 1932) was introduced in the Senate.

The proposed inspector general would have wide latitude in performing audits and investigations throughout the Department. Responsibilities would include keeping the Secretary and the Congress informed of fraud, abuses, and deficiencies; recommending corrective action; and reporting on progress made in implementing the corrective action. "Whistle blower" complaints would also be received and investigated. Semiannual reports to the Congress would be required.

In carrying out these responsibilities, the inspector general would be required to comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions. In addition, the inspector general would be required to expeditiously report to the Attorney General whenever he or she had reasonable grounds to believe that Federal criminal law had been violated.

^{1/}The legislation would also establish inspectors general in the Departments of Justice and the Treasury and modify the inspector general organization in the Agency for International Development.

Under H.R. 2098 and S. 1932, the Defense inspector general's office would include the Defense Audit Service, the Defense Contract Audit Agency, the Defense Logistics Agency Inspector General, and the portion of Defense Investigative Service (now with the Assistant to the Secretary for Review and Oversight) responsible for the investigation of alleged criminal violations and program abuse.

The following table highlights differences between the inspector general office which H.R. 2098 and S. 1932 would create and the existing organization under the Assistant to the Secretary for Review and Oversight. The chart on page 34 shows the organization proposed by the legislation.

Major Differences between the Inspector General
created by H.R. 2098 and S. 1932 and the Assistant
to the Secretary of Defense for Review and Oversight

Confirmation by the Senate

- The inspector general would be appointed by the President with the advice and consent of the Senate, without regard to political affiliation, and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations.
- The Assistant to the Secretary for Review and Oversight may be appointed by the Secretary of Defense without the advice and consent of the Senate.

Keeping the Congress informed

- The inspector general would be responsible for keeping both the Secretary and the Congress informed about problems and deficiencies.
- The Assistant to the Secretary for Review and Oversight reports to the Secretary. Responsibilities to the Congress are not defined.

Permanence of position

- The inspector general would be a permanent position created by statute.
- The Assistant to the Secretary for Review and Oversight was created by a Department of Defense Directive, and the position can be eliminated by the Secretary of Defense.

Removal from office

- An inspector general may be removed from office by the President. The President shall communicate the reasons for removal to both houses of Congress.
- An Assistant to the Secretary for Review and Oversight may be removed by the Secretary of Defense.

Inclusion of Defense Contract Audit Agency

- H.R. 2098 and 1932 would place DCAA and its approximately 3,500 personnel under the inspector general.
- The Assistant to the Secretary for Review and Oversight does not affect the organizational placement of DCAA under the Assistant Secretary (Comptroller).

A DEFENSE AUDITOR GENERAL (OR INSPECTOR GENERAL)
WOULD BE BENEFICIAL

We supported the Inspector General Act of 1978 and other legislation that has centralized internal audit and investigative activities in certain Federal agencies under statutory inspectors general. We believe such legislation is beneficial because it would ensure that

- high level agency attention is given to promoting economy and efficiency and combating fraud, waste, and abuse;
- the work of audit and investigative units in those agencies and throughout the Government is better coordinated; and
- both the Congress and agency heads receive information on problems involving economy and efficiency and fraud and abuse.

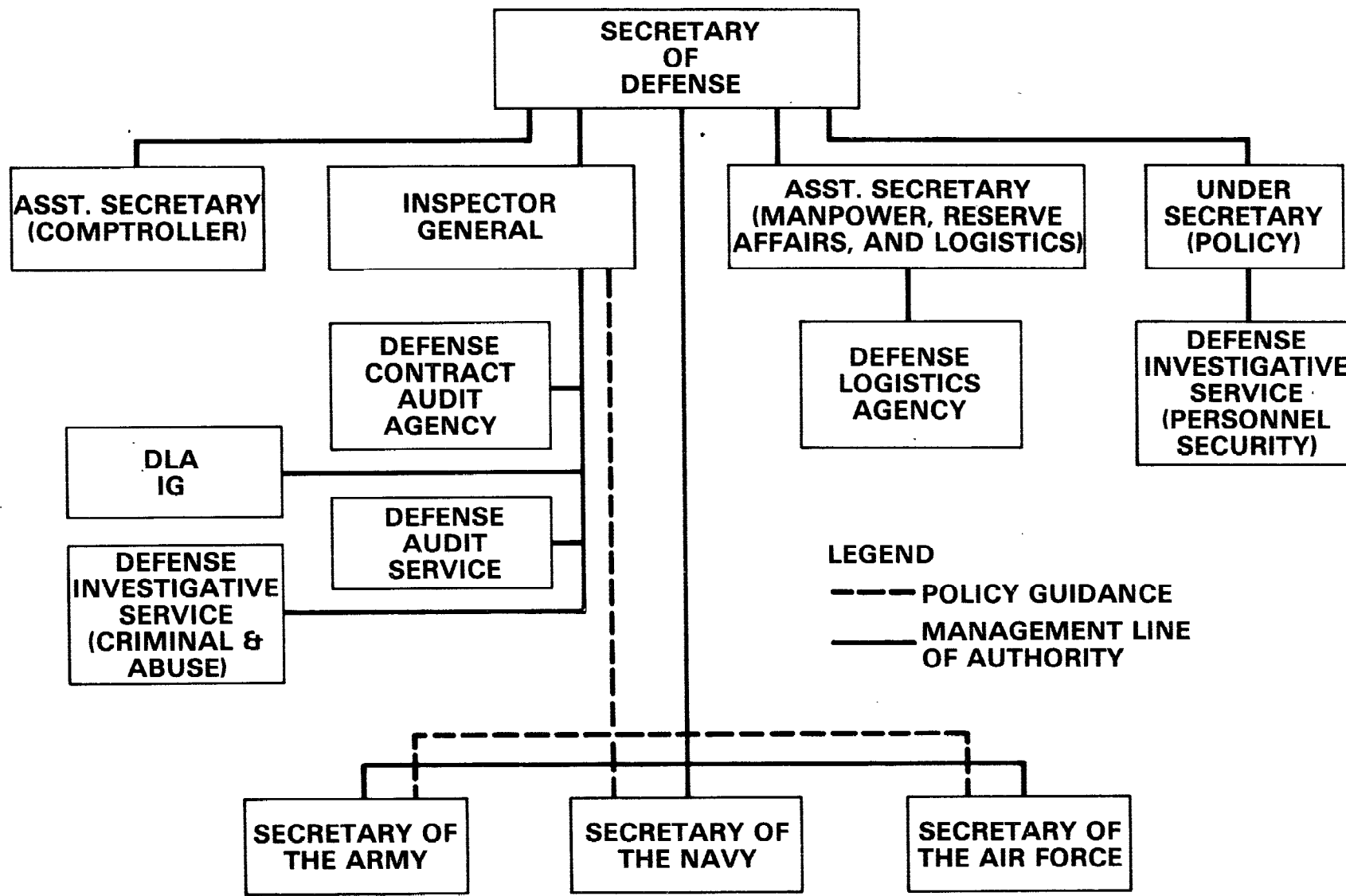
In testimony before congressional committees in July 1978 and August 1980, we supported the concept of an inspector general for Defense and reported that such an office was feasible and desirable. Further, we supported passage of H.R. 2098 in an August 19, 1981, letter to the Chairman, Senate Committee on Governmental Affairs.

Our reviews of the internal audit agencies, DCAA, and the inspector general organizations have given us a good understanding of Defense's oversight organizations and how internal controls can be improved. We believe the inspector general's degree of independence, congressional report responsibility, unrestrained scope of work, and combined auditing and investigating capabilities as contemplated under H.R. 2098 and S. 1932 would result in improved internal controls and better congressional oversight of Defense activities.

With regard to its impact on the Department of Defense, we supported passage of H.R. 2098 with some modifications. We prefer that the position be called Auditor General because the title signifies broad responsibilities, especially in reviewing the effectiveness of internal controls to prevent fraud, waste, and abuse, whereas the term "inspector general" has long been used in Defense to refer to a military officer whose responsibilities include serving as "the eyes and ears" of the commander in conducting unit examinations and reviewing military discipline, morale, and welfare.

In our earlier comments on the legislation, we stated that the Defense Audit Service, the Defense Logistics Agency inspector general, and the criminal investigative operations of the Defense Investigative Service (now with the Assistant to the Secretary for Review and Oversight) should be included in the new Office of Auditor General. However, we did not believe the Defense Contract Audit Agency should be included.

INSPECTOR GENERAL ORGANIZATION UNDER H.R. 2098



LEGEND
 - - - POLICY GUIDANCE
 ——— MANAGEMENT LINE OF AUTHORITY

Our earlier review of DCAA's operations showed that a large portion of the agency's resources were spent on preaward surveys, which provide contracting officers with financial information and advice on proposed contracts. We view these activities as more of a procurement support function than an audit or review function. Other DCAA activities, however, may be consistent with the types of work that should be performed by an independent audit organization under an Auditor General. We advised the Senate Committee on Governmental Affairs that in considering the merits of shifting only a portion of DCAA's resources into the proposed office, careful consideration should be given to the present balance of effort between two types of activities--(1) those that support the procurement function from an operational standpoint and (2) those that should be performed by an audit organization independent of program operations.

DEFENSE AUDIT AND INVESTIGATIVE ORGANIZATIONSBUDGET AND STAFFINGAS OF SEPTEMBER 30, 1980

Deputy Assistant Secretary (Audit)	a/\$ 500,000	15
Defense Audit Service	14,900,000	379
Defense Contract Audit Agency	109,500,000	3,411
Defense Logistics Agency	3,551,000	91
Defense Investigative Service (note b)	<u>39,909,000</u>	<u>1,740</u>
Total	<u>\$168,360,000</u>	<u>5,636</u>
Army Audit Agency	\$ 26,600,000	848
Army Internal Review	a/ 27,000,000	a/1,119
Army Inspector General	46,743,000	1,506
Army Criminal Investigation Command	<u>42,577,000</u>	<u>2,126</u>
Total	<u>\$142,920,000</u>	<u>5,599</u>
Naval Audit Service	\$ 18,300,000	532
Navy Internal Review	a/ 8,300,000	a/ 491
Navy Inspector General	8,254,000	c/ 150
Naval Investigative Service	28,021,000	975
Marine Corps Internal Review	1,100,000	77
Marine Corps Inspector General	915,000	24
Marine Corps Field Audit Service	<u>2,006,000</u>	<u>120</u>
Total	<u>\$ 66,896,000</u>	<u>2,369</u>
Air Force Audit Agency	\$ 26,600,000	932
Air Force Inspector General	46,369,000	1,521
Air Force Office of Special Investigations	<u>35,625,000</u>	<u>1,906</u>
Total	<u>\$108,594,000</u>	<u>4,359</u>
TOTAL	<u>\$486,770,000</u>	<u>17,963</u>

a/As of September 30, 1979 (fiscal 1979).

b/Responsibility for criminal investigations was transferred in April 1981 (with 100 positions) from the Defense Investigative Service to the Assistant to the Secretary of Defense for Review and Oversight. The remainder of Defense Investigative Service resources are devoted to personnel security investigations.

c/Supplemented by 2,556 temporary inspectors.

DEFENSE AUDIT AND INVESTIGATIVE ORGANIZATIONSSTAFFING BY FUNCTION AND DEPARTMENTAS OF SEPTEMBER 30, 1980

<u>Department</u>	<u>Number of personnel</u>					<u>Total by Department</u>
	<u>Internal audit</u>	<u>Contract audit</u>	<u>Inspector general</u>	<u>Internal Review</u>	<u>Investigative</u>	
Defense	394	3,411	91	-	d/1,740	5,636
Army	848	-	1,506	a/1,119	2,126	5,599
Navy	532	-	b/ 150	a/ 491	975	2,148
Marine Corps	c/ -	-	144	77	c/ -	221
Air Force	<u>932</u>	-	<u>1,521</u>	-	<u>1,906</u>	<u>4,359</u>
Total by function	<u>2,706</u>	<u>3,411</u>	<u>3,412</u>	<u>1,687</u>	<u>6,747</u>	<u>17,963</u>

a/As of September 30, 1979.

b/Supplemented by 2,556 temporary inspectors.

c/Functions performed by Navy.

d/The Defense Investigative Service primarily performs personnel security investigations. In April 1981, 100 personnel slots were transferred to the Assistant to the Secretary for Review and Oversight to carry out criminal investigations.

DEFENSE AUDIT AND INVESTIGATIVE ORGANIZATIONS

BUDGET BY FUNCTION AND DEPARTMENT

AS OF SEPTEMBER 30, 1980

<u>Department</u>	<u>Organization</u>					<u>Total by Department</u>
	<u>Internal audit</u>	<u>Contract audit</u>	<u>Inspector general</u>	<u>Internal review</u>	<u>Investigative</u>	
Defense	a/\$15,400,000	\$109,500,000	\$ 3,551,000	-	d/\$ 39,909,000	\$168,360,000
Army	26,600,000	-	46,743,000	b/ 27,000,000	42,577,000	142,920,000
Navy	18,300,000	-	8,254,000	8,300,000	28,021,000	62,875,000
Marine Corps	c/ -	-	2,921,000	1,100,000	c/ -	4,021,000
Air Force	26,600,000	-	b/ 46,369,000	-	35,625,000	108,594,000
Total by function	<u>\$86,900,000</u>	<u>\$109,500,000</u>	<u>\$107,838,000</u>	<u>\$36,400,000</u>	<u>\$146,132,000</u>	<u>\$486,770,000</u>

a/Deputy Assistant Secretary of Defense (Audit) budget, \$500,000, is data as of September 30, 1979, (included in \$15.4 million).

b/As of September 30, 1979.

c/Functions performed by the Navy.

d/Primarily personnel security investigations by the Defense Investigative Service.

PAST GAO REVIEWS
OF DEFENSE AUDIT AND INVESTIGATIVE ORGANIZATIONS

Internal Audit

<u>Report number</u>	<u>Date</u>	<u>Report title</u>
FGMSD-77-11	Jan. 27, 1977	Actions Needed to Strengthen The New Defense Internal Audit Service
FGMSD-78-02	Oct. 31, 1977	Staffing Shortages Within The Defense Audit Service
FGMSD-77-49	July 26, 1977	Why The Army Should Strengthen Its Internal Audit Function
FGMSD-78-5	Nov. 11, 1977	The Naval Audit Service Should Be Strengthened
FGMSD-78-4	Nov. 11, 1977	The Air Force Audit Agency Can Be Made More Effective

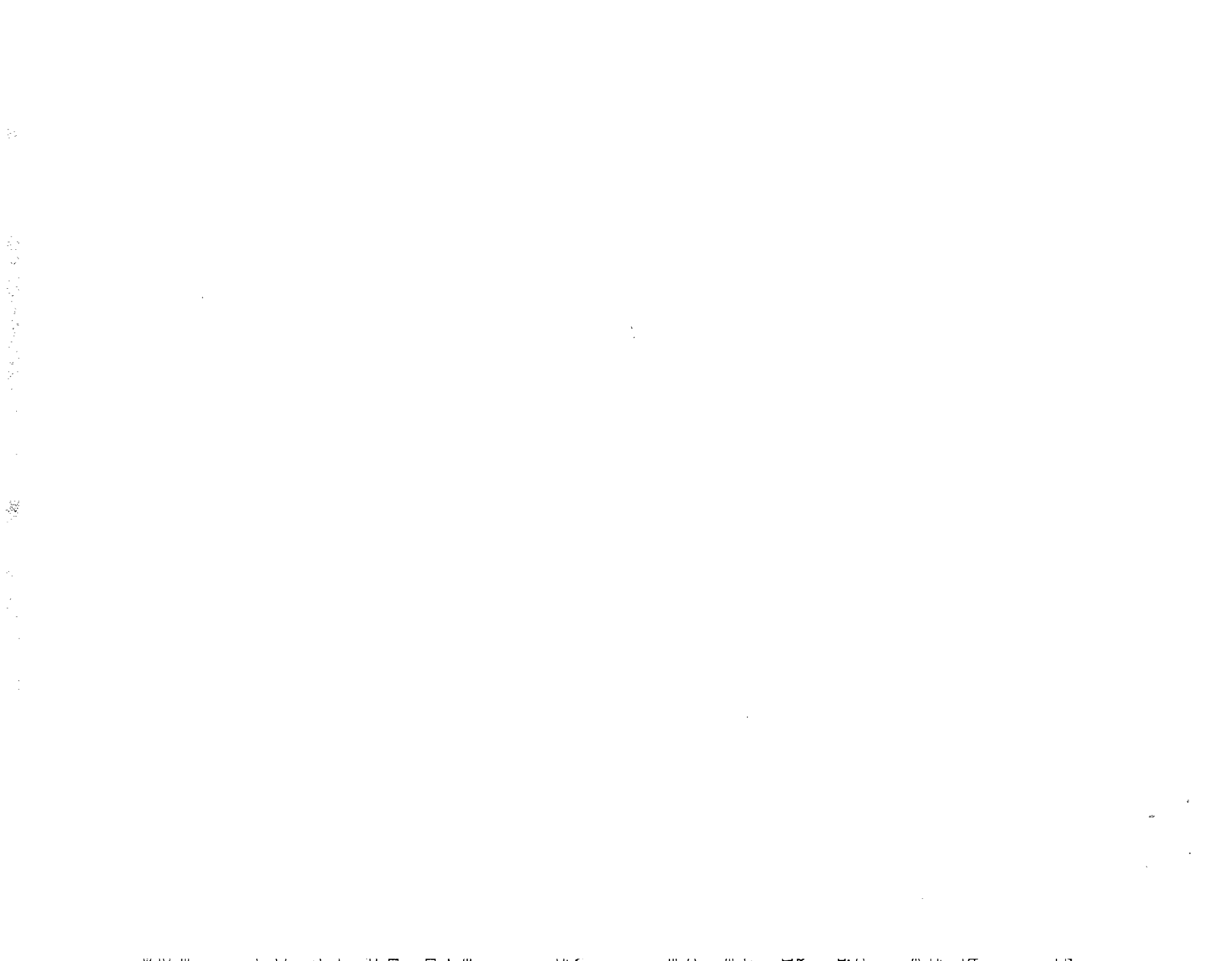
Contract Audit

FGMSD-79-5	May 10, 1979	The Effectiveness Of The Defense Contract Audit Agency Can Be Improved
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Inspector General

FGMSD-80-1	Oct. 30, 1979	The Army Inspector General's Inspections--Changing From A Compliance To A Systems Emphasis
FGMSD-80-23	Dec. 26, 1979	The Navy's Inspection System Could Be Improved
FGMSD-79-51	Aug. 28, 1979	A Look At The Air Force Inspector General's Inspection System
FGMSD-80-20	Dec. 20, 1979	The Marine Corps Inspection System Should Use Resources More Efficiently
FGMSD-80-24	Dec. 27, 1979	The Defense Logistics Agency Inspector General Inspections Should Change From A Compliance To A Systems Approach

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