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AIR FORCE INTERNAL CONTROL SYSTEMS:

A PROPOSAL FOR IMPROVEMENT

THESIS

Donna M. Fry, B.A.
Captain, USAF

AFIT/GSM/LSB/86S-7

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DEC 2 1986

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DEPARTMENT OF THE AIR FORCE
AIR UNIVERSITY
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Wright-Patterson Air Force Base, Ohio

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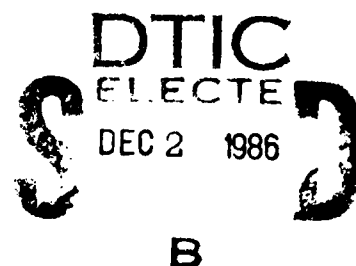
AIR FORCE INTERNAL CONTROL SYSTEMS:

A PROPOSAL FOR IMPROVEMENT

THESIS

Presented to the Faculty of the School of Systems and Logistics

of the Air Force Institute of Technology

Air University

In Partial Fulfillment of the

Requirements for the Degree of

Master of Science in Cost Analysis

Donna M. Fry, B.A.

Captain, USAF

September 1986

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<div align="right">Donna M. Fry</div>

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ABSTRACT

Thesis

This ~~investigation~~ reviewed the effectiveness of the Internal Control Review (ICR) program. The review consisted consisted of two parts. First, a literature review revealed strong feelings among field personnel that the ICR program needs modification. Second, a pilot interview was administered to 31 Cost Analysis practitioners. At least one representative was selected from each major air command, one Separate Operating Agency (SOA), and two recent overseas returnees. Participants were polled about their opinions, about strengths or weaknesses within the program, and about specific suggestions for improvement.

Statistical analyses were completed using results from the Statistical Package for Social Sciences (SPSS) programs. Analysis of results indicated that the ICR program is misunderstood. Program guidance and year-end certification require simplification. Greater emphasis should be placed on invoking and refining current internal management controls. The most frequently suggested method was merging the Air Force self-inspection program with the ICR program. Recommendations included increased training to forestall misunderstanding, streamlining guidance, strengthening the self-inspection program, and a cost/benefit analysis of the ICR program.

AIR FORCE INTERNAL CONTROL SYSTEMS: A PROPOSAL FOR IMPROVEMENT

I. INTRODUCTION

General Issue

Congress and the American public are demanding more efficiency in handling costly government resources and less evidence of fraud, waste, abuse, misuse, and misappropriation of these resources (63:1; 53:1).

In 1977, former Comptroller of the United States, Elmer B. Staats stated:

> Today government at all levels is beset with financial problems; one need only read the papers [sic]. Our larger cities have serious financial problems. The federal government and state governments, too, are feeling the pinch of steadily rising costs accompanied by widespread taxpayer opposition to tax increases [33:26].

Today's newspapers frequently discuss Gramm-Rudman-Hollings decreed budget cuts and limitations. However, the idea of controlling resources did not originate within the pages of the Gramm-Rudman-Hollings bill. On 10 June 1921, the 67th Congress passed Senate Bill 1064 which became the Budget and Accounting Act of 1921. The Act created the Bureau of the Budget (BOB) within the Treasury Department. Two new positions were created, those of Comptroller General of the United States and the Assistant Comptroller General. They would head the General Accounting Office (GAO), the new legislative branch agency created by the act (1:27-8).

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The 1921 Act was a move toward improving control over federal, and therefore public, funds through creation of a separate auditing agency, the GAO. The Act separated the duties of the Division of Bookkeeping and Warrants between the Treasury Department and the newly created GAO (1:28).

Then in September of 1950, the Budget and Accounting Procedures Act (Public Law 784) was passed. Its major emphasis, internal control, was contained in Part II of the act, Accounting and Auditing. It is therefore widely known as the Accounting and Auditing Act of 1950 (1:29). The Act required establishment and maintenance of adequate systems of accounting and internal controls (47:3) and "placed responsibility on each agency head" for those actions (1:29).

Over 20 years later, the weak, unenforceable, or non-existent federal controls became the headlines of the seventies. "Fraud, waste, and abuse" became household words. Two Inspector General Acts were passed, in 1976 and 1978, to establish the position of Inspector General (IG) in the major executive agencies (1:29). More in line with resource management the Acts "require semi-annual reports on discovered fraud, waste, and abuse" (1:29). These Acts, however, lacked "teeth," there were no enforcement provisions and they further lacked measures to "safeguard existing and future resources" (1:29).

"Hotlines" were created in the late seventies, many of which still exist today (99:1; 56:12). They increased public awareness of the problem, but they were after-the-fact and not preventive measures (1:30). Fraud, waste, and abuse programs abound throughout DOD. The Air Force has a special regulation which mandates the "Hotline" (31:15).

In 1981, a Comptroller General report stated that "Good internal controls are the most effective deterrent to mismanagement and misuse of funds" (36:26) and the shift from detection to prevention began (99:1).

Congress enacted the Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. 3512 (Public Law 97-255) for the purpose of strengthening internal management controls and administrative controls (40:i) and to provide "effective control over and the accountability for all funds, property, and other assets" over which an agency has responsibility (43:1). This Act amended the 1950 Act to include an annual evaluation and executive agency report of agency internal control status to the President and Congress (47:3; 76:81).

The Bureau of the Budget (BOB) was transferred from the Treasury Department into the newly created Executive Office of the President. This allowed financial orientation toward management as well as control. Management concerns increased as government services became more complex during the 1960's (58:5). Then, in 1970, the BOB

was renamed the Office of Management and Budget (OMB) as it is known today. The new OMB orientation was directed toward both management and planning (58:5). Shortly thereafter, Office of Management and Budget (OMB) Circular A-34 required the Director of OMB to approve agency fund control systems (47:3).

Within the Air Force, OMB Circular A-123, was included as an attachment to Air Force Regulation 170-22, 10 December 1982 (revised 16 August 1983). The circular outlines a program of Internal Control Reviews (ICRs) to reevaluate the existing resource controls and identify any significant weaknesses in the areas reviewed (32:1).

Vulnerability assessments were required of all executive agencies to "determine areas susceptible to loss or unauthorized use of resources, errors in reports and information, illegal or unethical acts, and/or adverse or unfavorable public opinion" (1:33).

Background

In the original OMB A-123 Circular, Internal Controls were defined as:

> the plan of organization and all of the methods and measures adopted within an agency to safeguard its resources, assure the accuracy and reliability of its information, assure adherence to applicable laws, regulations and policies, and promote operational economy and efficiency [75:1].

Internal Controls are defined by the revised OMB Circular A-123 as:

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the plan of organization and methods and procedures
adopted by management to provide reasonable assurance
that obligations and costs are in compliance with appli-
cable law; funds, property, and other assets are safe-
guarded against waste, loss, unauthorized use, or mis-
appropriation; and revenues and expenditures applicable
to agency operations are properly recorded and accounted
for to permit the preparation of accounts and reliable
financial and statistical reports and to maintain
accountability over the assets [75:2].

The reader should note that this definition is
narrower than that of the first OMB Circular. All refer-
ences to administrative controls, adherence to applicable
laws, regulations, or policies, and the promoting of opera-
tional economy and efficiency have been deleted bringing
the definition into closer alignment with the Federal
Managers' Financial Integrity Act which provides for
management accountability and integrity in the use of
public funds (76:22,24).

Similar definitions exist in Army and Navy publica-
tions, within the GAO Standards, and Department of Defense
(DOD) Directive 7040.6 (1:19). FY84 Air Force guidance
further simplified this definition. An Internal Control
Review (ICR) is:

a detailed examination of a program or administrative
function to determine: (1) if adequate controls
against fraud, waste, and abuse exist, and (2) if
these controls are working [94:1].

In simple language, "internal control is more
generally defined as all the methods by which an organiza-
tion governs its activities to accomplish its defined
purpose" (1:19).

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INTERNAL CONTROL REVIEW PROCESS

PHASE 1

```
┌─────────────────┐      ┌─────────────────┐      ┌─────────────────┐
│ Assign Internal │      │ Identify Agency │      │Identify Programs│
│ Control Respon- │─────▶│   Components    │─────▶│  and Functions  │
│ sibilities      │      │                 │      │                 │
└─────────────────┘      └─────────────────┘      └─────────────────┘
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PHASE 2   PHASE 3

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┌─────────────────┐  ┌─────────────────┐  ┌─────────────────┐
│Conduct Vulnera- │  │Develop Plan for │  │Conduct Internal │
│bility Assessments│─▶│Subsequent Actions│─▶│Control Reviews  │
└─────────────────┘  └─────────────────┘  └─────────────────┘
  ┌───────────────┐                         ┌───────────────┐
  │Analyze General│                         │Identify Event │
  │   Control     │                         │    Cycles     │
  │ Environment   │                         │               │
  └───────────────┘                         └───────────────┘
  ┌───────────────┐                         ┌───────────────┐
  │Analyze Inherent│                        │Analyze General│
  │    Risk       │                         │   Control     │
  │               │                         │ Environment   │
  └───────────────┘                         └───────────────┘
  ┌───────────────┐                         ┌───────────────┐
  │ Preliminary   │                         │Document Event │
  │ Evaluation of │                         │    Cycles     │
  │ Safeguards    │                         │               │
  └───────────────┘                         └───────────────┘
  ┌───────────────┐                         ┌───────────────┐
  │ Summarize     │                         │  Evaluate     │
  │ Results       │                         │  Internal     │
  │               │                         │  Controls     │
  └───────────────┘                         └───────────────┘
                                            ┌───────────────┐
                                            │Test Internal  │
                                            │  Controls     │
                                            └───────────────┘
                                            ┌───────────────┐
                                            │Report the     │
                                            │  Results      │
                                            └───────────────┘
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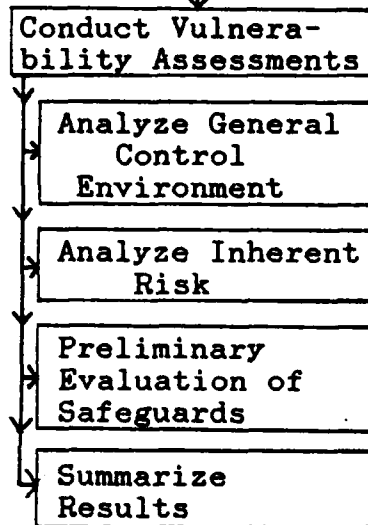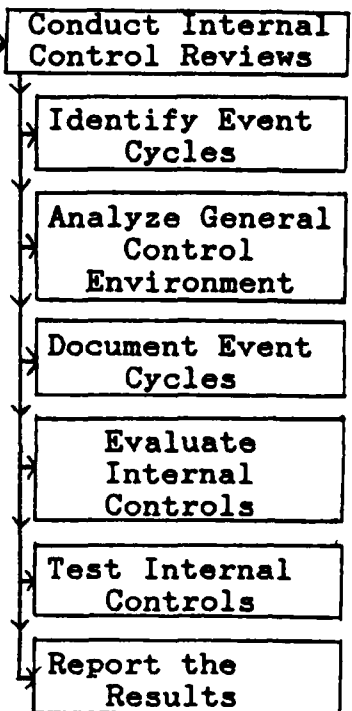
Figure 1
Adapted from Oppe':74 (76:74).

Department of Defense (DOD) Directive 5010.38, (re-
vised and renumbered as of 16 July 1984 from 7040.6) calls
for managers at all levels to be responsible for internal
controls. It states that the controls should be in effect
"across the board in every organization within each DOD
component" (32:1). This directive stresses the need for

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adequate internal control to efficiently and effectively manage resources, stating that this control is the "foundation for integrity in the management system" (27:1).

Guidelines and standards for internal controls are prescribed by the Comptroller General of the United States in the revised OMB A-123. Included are reasonable assurance, positive and supportive attitudes toward the internal controls, and defined control objectives (47:4).

> Other standards state that managers and employees are to have integrity, and maintain a level of competence to accomplish their duties and understand the importance of internal controls [47:4].

All of the standards must be attainable as well as functional (47:4). Other specific standards cover transaction recording, separation of duties, resource accountability, supervision, etc. (see Appendix B). Since there always seem to be people who take advantage of a system's "loopholes" for their own benefit, so called "white collar crime," a sound system of internal controls is needed.

"Reasonable assurance" as to how well an agency is doing meeting legal requirements of the Act must be certified annually by the head of an agency (47:4). A "material weakness" is a situation where the procedures as designed or the degree of operational compliance does not provide this "reasonable assurance" to meet the objectives of internal control stated by the 1982 Act (76:82).

It then becomes a question of how much fraud, waste, or abuse is acceptable, and how much will it cost to

prevent or deter those violations. In The Egyptian by Mika

Waltari, a courtier seeks to curry favor with the Pharaoh's

physician, Sinuhe. This courtier secretively warns Sinuhe

that his servant-slave is skimming funds from his transac-

tions. Sinuhe, aware of the thefts, explains that his

servant has made him a rich man, "He is a thief and, as

such, is an excellent financial advisor. He only takes a

reasonable amount and surely this is worth the saving of my

time and well-being" (59:6-7). Although the government may

not be so cavalier, the cost of performing, documenting,

and later auditing, an ICR must be weighed against the

benefits, as it is a long, involved, and potentially

expensive process.

The ICR process described in OMB guidelines represents

"difficult and time-consuming tasks for managers," it is a

detailed examination of a set of internal management con-

trols (37:3). Further, since the ICR program requires

segmentation for better management, the Air Force chose to

create these segments along functional lines. Each segment

must be assessed as to fraud, waste, and abuse vulner-

ability (see Appendix A), and ICRs must be performed on

moderately or highly vulnerable functions (98:1).

For internal control systems to function properly

there are two factors that are considered critical: goal

congruence and linkage (1:24).

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A control system should be designated so that actions people take in their self-interest are also in the best interest of the organization. This requires recognition of the fact that individuals act in their own interest and their individual goals are not necessarily those of the organizations...controls need to be linked to objectives in that the controls are established which provide reasonable assurance that the objectives of the control system will be accomplished [1:24].

Two other points should be made about any system of internal controls. "First, they should be cost beneficial" (1:24; 76:67), benefits should exceed the cost of implementing the system, and second, emphasis should be placed on better controls not on more controls.

The cost-benefit relationship must be weighed and both indirect and direct costs taken into account. Often the non-monetary impact of the lack of internal controls escapes the casual observer. Not only does the Air Force face loss of public confidence in its ability to do business properly, but there could be a serious impact on mission readiness. Though difficult to measure, consider the loss of pilferable items from mobility bags. On arrival at a deployment area, the loss of items that seemed minor at home could reduce mission capability seriously (93:8). The very old parable, "For want of a nail, a shoe was lost; for want of a shoe, the horse was lost; for want of a horse, the battle was lost; for want of the battle, the war was lost," does indeed summarize the results of inadequate resources that may appear to be trivial (60:10).

Development of the program in the Air Force began before AFR 170-22 was published. Internal Control Reviews of highly vulnerable areas were directed after initial assessment of Air Force-wide vulnerability to fraud, waste, and abuse. Vulnerability assessments by the Secretary of the Air Force, Financial Management Board (SAF/FMB), HQ USAF, and major command (MAJCOM) officials led to "judgmental ranking of 231 subjects" (3:1). Eighty-two of the topics were considered more vulnerable and were assigned for internal control reviews during Fiscal Year (FY) 83.

Most MAJCOM commanders have designated their command comptroller as responsible for developing the command ICR plan to meet the objectives of the Air Force program, as suggested by the Air Force (50). Similar to other MAJCOMs, Air Force Systems Command:

> functional managers assigned to the headquarters staff were selected by the various Deputy Chiefs of Staff, to identify internal control systems for review, select locations at which reviews would be accomplished, establish a schedule for completion of field work and provide guidance to base-level functional managers who would actually accomplish the reviews [48:6].

In FY83, the first year of implementation, most DOD agencies encountered similar problems. Implementation led to wide variance in quality and documentation (38:3), inadequate or unclear guidance (38:12; 97:1), short lead time, lack of training, and "widespread confusion as to what [was] actually required" (48:7). Base/wing comptroller (AC) divisions, specifically the Cost &

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Management Analysis (ACM) branches, were heavily taxed, along with MAJCOM/ACs, to expend over 293,000 manhours on the ICR program (98:1). Analysts accomplished "4,400 detailed internal control reviews" which reported only four material weaknesses (3:i).

The FY83 program led to new instructions from HQ USAF/AC in January 1984. These instructions explained the documentation requirements more clearly (4:4).

FY84 saw increased Air Staff participation, but the program was primarily performed by base-level Comptroller (AC) divisions. There were increased reviews, increased requirements, and 340,000 manhours (98:1) expended on the program, discovering seven material weaknesses, three repeated from the prior year (98:1). Of the original listing of 231 subjects mentioned above, 74 additional highly vulnerable Air Force-wide subjects were selected for ICRs by MAJCOMs and Separate Operating Agencies (SOAs) at approximately 110 installations in FY84 (4:2).

FY85 changed the program orientation more toward the functional areas, increasing their responsibilities while decreasing direct involvement by Cost and Management Analysis. Full Air Staff participation was expected by a 1985 study and DOD training courses were to be developed and issued (98:2). The FY86 program has seen further decreased involvement in the field, with some bases performing no ICRs so far (72). It is believed by some

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that the Air Staff has performed the required vulnerability assessments, found low risk in almost all cases, and therefore few reviews will be required (55).

Air Force internal controls are considered a management responsibility which is applicable to every Air Force unit. Air Force Internal Control systems were designed to meet the standards prescribed by the Comptroller General. The Comptroller's standards comply with the Federal Managers' Financial Integrity Act of 1982, OMB Circular A-123, and the Department of Defense Directive 5010.38 (see Appendix B for a listing of the standards). The Air Force has implemented an Internal Control Review Program "as a response to" these requirements and the standards and objectives outlined in the original DOD Directive 7040.6 (98:1). The objectives are intended to provide DOD management with a "reasonable assurance" (see Appendix B) that financial resources, individual office or function statistical records, and other valuable resources are protected. This is accomplished by careful adherence to regulations, laws, and policies through carefully handling and documenting accountability. The standards outline the requirements for an "audit trail" of transactions. An audit trail is a traceable paperwork path showing every step of a process, who performed it, what was done, why it was done that way, when it was accomplished, and how it was completed. This audit trail allows any manager to trace a

transaction from beginning to end, whether or not he or she was involved in the actions taken. The documentation required in the original guidance received by this author in early 1983 from her Headquarters stressed the need for an unquestionable and clear audit trail when completing all Internal Control Reviews. The standards also call for supervisors to separate action levels (e.g., payments for travel from the auditing of the travel voucher), so that no one person controls an entire transaction, thereby reducing the risk of loss and opportunity for fraud.

The Comptroller of the Air Force has been designated the office of primary responsibility (OPR). His office passes Congressional policy down the chain of command, providing training and guidance. It is charged with completing vulnerability assessments at least biennially, taking corrective actions as required and reporting the results to the Secretary (32:1).

At most major air commands, the Cost and Management Analysis (ACM) function, recently realigned and renamed as the Cost Analysis (ACC) function, is responsible for coordinating the annual ICR requirements lists with command Functional Area Managers. These are forwarded to individual bases with any new guidance. This annual listing provides each command (and eventually the bases) with an enumeration of the subjects and completion schedules for ICRs due during that fiscal year. Not every

base performs every ICR required for the fiscal year. For instance, it would not serve a purpose to require a base without aircraft to perform an aircraft inventory check.

Although the Comptroller of the Air Force is ultimately responsible for the Air Force program, Commissary Services and the Accounting and Finance functions have separate programs from the one managed by Cost & Management Analysis. The Air Force Reserve and the Morale, Welfare and Recreation function also have their own programs. These separate programs are managed by their equivalent commands; for example, the Accounting and Finance Center (AFAFC), who then report directly to the Comptroller of the Air Force. The Accounting and Finance Center in Denver, Colorado, forwards their annual requirements to Finance functions at bases across all commands. Each of these separate programs also provide separate guidance and maintain separate records from the program being studied here. In all the literature and in discussions with Comptroller personnel, this author found that the Accounting and Finance program was highly praised and considered very effective. The most frequent comment was that their (Finance's) program works very effectively--why can't ACC's work that way? Accounting and Finance has had years of practice doing exactly what ICRs mandate--managing resources (55).

Local wing, base, and unit commanders and managers are responsible for actual compliance with established controls, review of the vulnerability of an asset, adequacy of daily controls, reporting any significant deficiencies, breakdowns, or losses through the chain of command, and writing performance appraisals to reflect any serious breaches of internal control responsibilities (32:1).

The monitor of the program at base level is the Cost and Management Analysis Branch (ACC) of the Comptroller Division. ACC is also charged with providing policy guidance, instructions and training, coordination of vulnerability assessments and internal control reviews, and preparation of required reports. ACC may also be tasked to identify and outline possible topics for local base/wing commanders (18:3-4).

Success in such an effort relies on specification of the program in precise language, exact definition of what is expected in the process, and end products. Careful and competent vulnerability assessments by base level Functional Area Managers will reduce the likelihood of overlooking possible thefts or fraud. They should also provide chances to discover opportunities for improving existing procedures and regulations. The Air Force Audit Agency (AFAA) stated that whenever ICR performance weaknesses or documentation problems were found during the

first year, they also found confusion caused by "general, inconsistent, and nondirective guidance from different sources" (18:6).

Specific Problem

Cost and Management Analysis personnel seem to think there is a lack of coordinated, consistent effort, and centralized control in the Air Force's implementation of the program. Many Cost Analysts question whether ICRs meet the intent of the standards set forth in the Act (see Appendix B). Personnel within Cost and Management Analysis (ACC) frequently function without specialized training or educational background in audit procedures. It is therefore difficult and time-consuming at best to accomplish ICRs properly.

"Internal Controls will seek to prevent as well as detect waste, loss, unauthorized use, and misappropriation" (32:1). Overall project management for the Department of the Air Force (DAF) resides with the Secretary of the Air Force. The Secretary is charged with development, documentation, and periodic review of all management levels to ensure adequate implementation (32:1). Cost Analysis manages the program (3:1).

Base level Functional Area Managers complete Internal Control Reviews based on specific topics provided in annual command schedules from their equivalent headquarters Functional Area Managers (e.g., Civil Engineering, Security

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Police, or Chaplain). MAJCOMs and SOAs are given freedom
to expand on the list. Command-unique or high risk topics
of review are encouraged (18:2-3). Commanders may also
designate additional topics that their bases/wings will
review (as was done during the FY85 program). The
completed Internal Control Review (ICR) is coordinated with
the base/wing level Cost and Management Analysis Branch
which forwards copies through the base or wing commander
(depending on the level of the area covered in the ICR) to
the command Cost Analysis (ACC) office and the major
command Functional Area Manager. Recently, ACC has been
withdrawn from the reporting process and Functional Area
Managers forward ICRs directly to their major command
equivalents.

An end-of-year commander's certification is required
to summarize the well-being of each command's management
control systems. The major commands consolidate the end-
of-year reports at the close of the fiscal year. An over-
all vulnerability assessment (see Appendix B) of the
command is then certified by the appropriate commander; for
example, the Commander-in-Chief, Strategic Air Command.
This assessment is then forwarded through the HQ USAF
Directorate of Cost Analysis and the Secretary of the Air
Force to the Secretary of Defense (4:1). It includes any
corrective actions taken when significant weaknesses or
discrepancies were noted. The base level Functional Area

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Manager must also include a timetable for correcting problems. The Secretary of Defense must forward this certification further up the chain of command (3:1). It is also reviewed by OMB.

Each executive agency conducts a vulnerability assessment of internal controls within areas designated by the Comptroller General of the United States each year by December 31. Assessments are then done at least biennially thereafter on the same topics (63:2). The Office of Management and Budget (OMB) and Congress are then appraised of the state of the DOD's efforts in the battle against fraud, waste, and abuse (74:9).

ICR requirements cause problems at the bottom of the management chain, the individual Air Force base Functional Area Managers and the Cost and Management Analysis Branch (ACC). Not only are command guidelines extensive and often voluminous, but awareness and compliance with the requirements to perform and document Internal Control Reviews create possible duplication of effort with a previously existing self-inspection program. Further, the Air Force "already had a system to review our internal controls - the Air Force Audit Agency" (24:i). The actual performance of an internal control review closely parallels the steps an auditor follows in examining a function (76:60). It is a matter of adding to someone's workload without adding the manpower resources (24:5).

The Air Force self-inspection program, strongly recommended by AFR 123-1 and required at least annually by every major air command supplement found, requires managers to safeguard resources and document compliance with the Air Force-wide fraud, waste, and abuse programs. Self-Inspection checklists can be used straight from the TIG Brief, a monthly publication of The Office of the Inspector General, along with command "special interest items" and guidance, or may be added to by the functional manager (20:1). Control of resources is further covered in regulations such as AFR 67-10, "Responsibility for Management of Public Property in Possession of the Air Force," and equipment custodians use AF Forms 126, "Control Logs" in property management (95:11-12).

MAJCOMS have these self-inspection programs and require written verification that an inspection was performed periodically, usually a minimum of twice yearly. The inspections include a review of management controls and compliance with applicable regulation, and the written report includes a copy of the checklist, discrepancies found, and the date(s) the problems were corrected.

Like the ICR, this self-inspection report is open to review by the Air Force Audit Agency (AFAA) and is expected to provide a clear audit trail (29:10). The author believes there are considerable manhours lost through duplication of effort since her prior duty assignment

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included the performance of both self-inspection and ICRs and the subsequent reports required by both programs.

This study will address the problem of compliance with directives and possible duplication of effort with other Air Force programs. Duplication of effort stems from the fact that the ICR program requires reports concerning fraud, waste, and abuse, as do several other Air Force programs, especially the self-inspection program.

The study will provide analysis for reevaluation of the Internal Control Review Program to be forwarded to the Secretary of the Air Force and eventually Congress.

Further complicating the ICR situation, the method of review violates one of the basic principles of internal controls, that of separation of duties (the persons performing the job are asked to perform the ICR, review it, and certify that they are doing it properly) (24:1). This study will seek a better method to comply with requirements for separation of duties.

The private sector also employs resource protection systems. However, in the private sector discrepancies often can be written off as inventory losses, spoilage, or discounts. The Federal Government and Department of Defense, as the guardians of the taxpayer's dollar, cannot write these losses off, but must be able to account for every dollar spent to Congress and the public.

Other Federal agencies have also grappled with the implementation of the Federal Manager's Financial Integrity Act, apparently quite successful in some cases. The literature review will look at some of these departments, their findings and recommendations for the program, as well as implementation by the other branches of military service.

Objectives of the Research

The overall objective of this research is to determine an improved method for heightened compliance with Air Force Regulation 170-22, the use of Internal Control Reviews (ICRs) as an anti-fraud, waste, and abuse tool. AFR 170-22 was in revision for over two and one-half years and has recently been put on hold as a draft regulation, AFR 123-X, was sent to the field during June 1986, and a revised draft was delivered in mid-July, the final regulation was not published as of August 1986.

The following investigative questions will be the focus of the research:

1. Can program improvements render Internal Control Reviews a higher quality tool for safeguarding scarce resources?

2. Are base level personnel managing the ICR program in accordance with the directives? Is it possible to do so?

3. Does duplication of effort between programs and among offices cause a loss of productivity and incur costs?

4. Can simplification of the ICR program be attained through addition to the self-inspection program, or conversely, eliminating separate reporting requirements?

5. Can experienced ICR monitors suggest workable improvements to the program?

Scope

This research will be limited to Air Force personnel in the Comptroller career fields, 67XX or 69XX, who have been, or are currently, Internal Control Review monitors. The Literature Review will include a review of information concerning both the Army and Navy ICR programs and programs in several other Department of Defense areas. Some private sector programs will be reviewed also. This thesis, therefore, may apply throughout the Air Force and perhaps other DOD offices if it is found that greater uniformity of procedures would be beneficial. Specific applications may differ with each agency or command based on such factors as mission, Cost and Management Analysis (or equivalent) personnel assigned, and management level.

Limitations include the time available for completion of the research and analysis.

Summary

In continuing actions to safeguard scarce resources, OMB Circular A-123 was published requiring each governmental agency to annually certify the status of its internal control systems to the President and to Congress.

Due to the volume of guidance, the ICR program often does not receive attention commensurate with its importance. GAO standards are often violated, and possible duplication of effort results.

This thesis will take a first look at problems and improvements suggested by the "experts" struggling with the ICR program in the field.

II. LITERATURE REVIEW

Introduction

A literature review was conducted from published documents pertaining to the ICR program.

Several master's degree theses have been written on the subject of internal controls, all products of the Naval Post Graduate School in Monterey, California. The Navy program began much as did the Air Force program and therefore, its history will not be summarized in this review (see Martin and Berg for a complete summary). In 1975 one author recommended that a study be conducted to investigate the possibility that the three Navy programs: Internal Review Program, Internal Control Program, and the Naval Audit Service, are duplication of effort and should be consolidated (17:12).

Several General Accounting Office (GAO) Reports were reviewed to gain insight into the past and current status of the ICR Program. One report, concerning ICRs which reviewed retiree pay processing, noted that "the military services must spend more time determining whether they have good internal controls" (40:4).

The Air Force Comptroller Magazine Professional Military Comptroller School (PMCS) "idea paper" title listings yielded numerous papers concerning what people believe is happening within the ICR program and their suggestions

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for improvement. (The "Idea Paper" is a report of facts and opinions on a topic of the student's choosing.) These papers come from senior level comptroller personnel in the Army, Navy, Marines, and Air Force, both officer and civilian, yielding a good cross-section of ideas concerning all phases of the DOD program.

In the Air Force, several other areas perform ICRs besides the ACC function of the Comptroller Division. Air Force Accounting and Finance (ACF), although another branch within the Comptroller Division, has a separate, pre-existing program directed by the Accounting and Finance Center in Denver Colorado (49).

There are other divisions on an Air Force base that also have their own ICR programs. They include the Commissary Services group, the Air Force Reserve, and the Morale, Welfare, and Recreation Division. These groups may all call upon ACC for guidance and training, but rarely do so (55).

ACF's reviews are similar to a Quality Assurance program that has been in existence for many years. Their reviews are considered well planned and are well received by their personnel. ACF and ACC at some bases work together when reviewing ICRs. The ACF reviews are not part of the ICRs counted into the ACC schedule, nor are those performed by the other areas listed above (49). ACF receives their guidance directly from AFAFC, Denver, CO (19).

Background

The Adams & Warywoda thesis provided an in-depth
history of the evolution of the current federal principles
on internal controls and their application in the Navy.
The authors reviewed several instances where mismanagement
or misuse and fraud cost the Navy thousands of dollars.
Most of the time the involved parties' "fitness reports"
(annual performance evaluations) did not reflect the
problems. In one case, an officer received a low fitness
report for not being a "team player", that is, for not
misusing the system (1:13). This officer was concerned
that he would not be promoted further, although some of the
officers involved in mismanagement were promoted on their
"first screening" (1:11,13). The Lancaster thesis also
traced the history of auditing. The history discussed the
evolution of accounting from the dawn of recorded history
to the present (60).

The consensus among the studies reported here is that
there must be less costly and less complex ways to carry
out a program and that such methods should be second nature
to managers (1; 24) and should be included in their perfor-
mance measures. The literature concludes that the program
takes a great deal of time from regular duties in Cost and
Management Analysis (or the other services' equivalents) as
well as from the Functional Area Managers (96:9). They
conclude that total costs exceed the benefits received.

There is some evidence of lack of compliance including "pencil whipping" reports to meet dead-lines. "Managers perceive the ICP as a bureaucratic albatross, and therefore have relegated it a low priority" (79:10). Commanders seem to lack interest in "just another Comptroller exercise" (48:10) possibly brought on by political motivation (47:1) and in general are not getting involved (48:11). Internal control personnel seem to lack understanding of program importance and just exactly what constitutes a "good" control (99:9). Without proper redirection, one author thinks the program will become another mandatory "to do" rather than a serious attempt to strengthen internal controls (79:i).

Professional Military Comptroller School (PMCS) students representing all four services were questioned by Pugh (1985) and in general, report that:

> ICPs [Internal Control Programs] were ineffective. A common perception among [PMCS] Class 85-D was that PL 97-255 was never intended to apply to the DOD. The consensus was that DOD agencies had existing internal control mechanisms (inspector generals [sic], audit agencies, staff assistance visits, self-inspection programs) upon enactment of PL 97-255. In other words, Congress drew its target circles around all executive agencies rather than just those non-DOD agencies that were the bullseye of the problem...The major difference is that managers must now laboriously document their internal control processes [79:6,8].

Other problem areas found during the literature review included lack of reporting of material weaknesses by several government agencies (14:5; 12:6), inadequate formal follow-up procedures when weaknesses were identified, and

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exclusion of internal management control issues and responsibilities from performance appraisals (14:3; 12:6). Automatic Data Processing (ADP) internal control requirements evaluations were not included in many early ICRs and are still considered a difficult area to judge (12:6; 14:5). Computers are becoming part of the daily office routine. As their use grows throughout DOD, the need to safeguard the both the equipment and the data stored on disks also grows. Personnel outside of the Air Force Information Services Command tend to ignore ADP considerations. This lack of concern is found in individual offices in the Navy as well as Air Force (1:104).

The Oppe' thesis provided case histories of malfeasance involving both the public and private sectors. The emergence of internal controls in both the public and private organizations were traced and similarities underlined. Her comparison of ICR "event cycles" to private companies' "transaction cycles" as the first step in setting up a system of internal controls for both suggest that OMB is attempting to pull the Federal Government closer and closer to a more business-like orientation (76:42-48).

Her study stressed the need for internal controls to be dynamic. As systems change, so should the controls placed over them. Loss of a long-time employee or addition of a new duty could be events triggering reevaluation of

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current controls: are new ones needed, should some be eliminated or expanded (76:67)?

Standards

Most of the PMCS papers reviewed the history of the internal control system requirements and the vulnerability assessment procedure. More than one author touched on the necessity for meeting the GAO standard for "independent and objective evaluation of the systems of internal control" charging managers with the responsibility for establishing these controls and a person independent from the process with the evaluation (53:7; 82:i). This leads to the conclusion that the Functional Area Managers (FAMs) who perform ICRs may not be the independent evaluators required to meet GAO standards and the concept of separation of duties (described in Appendix B). One author calls for reviews to be performed by someone outside the function under review (53:11).

The literature repeatedly mentioned the need for dynamic and robust internal controls. Also seen were references to the need for building internal controls into all new systems (99:10).

The Dykes thesis was completed in June 1982, at the Naval Post Graduate School. Although it focused primarily on audit standards issued by the General Accounting Office (GAO) in 1972 and revised in 1981, and how they were

employed in the state of California; their relationship with internal controls was clear:

> The concept of internal auditing envisioned by the forward looking General Accounting Office (GAO) was that of an independent organization installed within the various levels of government to not only review financial statements, but also to aid management in the achievement of its goals by including a consideration as to the effectiveness of control systems and related administrative practices [1:11].

The standards for auditing and those for internal controls are similar. The auditing standards may be found at Appendix C (1:Appendix B). In addition, the definitions of internal auditing and internal control, are similar. Both are considered management tools; systems of controls in an organization to determine:

> whether applicable policies and procedures are followed, standards set, resources are used efficiently and economically and the organization's objectives are being achieved [1:12].

GAO auditing standards (Appendix C) call for reviews to be performed by knowledgeable individuals, "high quality individuals." They call for "independence" that is: no personal impairments, for instance financial interest in the results; no external impairments, such as fear of retaliatory actions; and no organizational impairments, that is no political pressures which can be levied (1:40-41). The GAO standards continue to be similar to the internal control standards by calling for appropriate guidance and supervision, plus making sure that "working papers properly document and support" the findings (1:42).

The audit standard of internal controls repeats the formal definition of internal controls used in Chapter One of this thesis. They are:

> organizational plans, methods and utilized measures that safeguard assets, verify the accuracy of financial transactions and encourage compliance with managerial policies, procedures, and practices [1:43].

The Adams and Warywoda thesis reviewed the components of a "good" internal control system in light of the revised OMB Circular A-123. They felt that the requirements of the Circular and subsequent instructions down the chain from DOD through the Naval Medical Command "key on internal review which GAO emphasized as an element of a satisfactory internal control system" (1:36).

A 1981 report from the Comptroller General attributed mismanagement and misuse of federal funds to weaknesses in the systems of internal controls at several community action agencies. Excess cash had been diverted into unrecorded bank accounts (36:7), embezzled (36:8), or used to subsidize other activities (36:8-10). After tracing the spurious activities, the Comptroller General called for increased funds control to preclude recurrence. The main conclusion of the report was: "Good internal controls are the most effective deterrent to mismanagement and misuse of funds" (36:26).

A 1981 letter to the Comptroller General from OMB attached to the report stated that OMB had formed an Internal Control Task Force consisting of "representatives from

OMB, the General Accounting Office, and each major Federal agency to draft policies and standards for agency internal control" (36:37). Although no other mention of this task force was found, the policies and standards being drafted were most likely those subsequently published as OMB Circular A-123.

Dykes used a questionnaire to determine the degree of compliance with the 1972 GAO audit standards, to seek underlying causes of any deviations and to make recommendations for improvement (1:15). He found that the GAO standard of independence/segregation of duties was frequently violated in the California municipal government auditing procedures (1:105-7).

Adams and Warywoda also prepared a questionnaire which was mailed to all 28 Navy Medical Supply Officers not in Europe (1:40). The questions were oriented toward Navy Medical Management and the findings are difficult to relate to Air Force ICRs due to management structure and operational differences, but this questionnaire, the one by Lancaster (reviewed below) and that of Dykes became the foundation for many of the questions used to obtain data for this study (1:126-133; 1:75-84; 60:188-190).

Cost/Benefit Relationship

The cost/benefit relationship was discussed frequently in the literature: benefits should exceed costs whenever possible. Most often noted was that better, not more,

controls are needed and all managers are responsible for the success or failure of an internal control program (1:24).

Oppe' stressed the cost/benefit relationship as did Adams and Warywoda. She felt that direct and indirect costs of excessive controls "can far outweigh the risks of adequate, but not absolute, control" (76:67). Stress on cost of implementation versus expected benefits was seen throughout the literature (96:10). The implication for a future study to assess costs seems clear and will be discussed in a later chapter.

Manning and Training

Other papers suggested that training was inadequate for the limited number of persons involved in the internal control process (43:4; 10:3; 81:10). Most of Dykes' findings were peculiar to California government, but his findings that formal training programs were lacking is also found in the DOD, and his study provides insight into the common problem. Survey participants made use of private continuing education and professional seminars to fill the gap. They desired additional employer-provided training in the areas of Automatic Data Processing (ADP) and accounting systems (33:104). Most auditors were found to have the basic education required to perform the audits competently (33:103).

Air Force Commissary Services had difficulty in implementing their program partly due to lack of emphasis and inadequate staffing (96:8-9; 18:6). The theme of inadequate manning, recurrent throughout the literature, was repeated here. The author stated the case clearly:

> It has been most unrealistic of OMB to inject such a program without providing the resources to accomplish the program. Both program [ACM] and functional management personnel were fully tasked before the requirement for internal control reviews was established [96:9].

His concern is that while performing ICRs, regular assigned duties will be forced aside and neglected (96:10). The reader is reminded, however, of Pugh's suggestion that OMB never intended for additional audits to be added to the existing DOD system (78:6,8).

Lancaster found that offices surveyed felt staffing was inadequate to properly fulfill review requirements (60:104); most personnel assigned had the required technical expertise, but that was defined as merely meeting Navy minimums (60:105). Lack of performance and reporting deficiencies often blamed on inadequate training and manning (60:108).

Information Sharing

One author stated that inaccurate information was to be expected because of the lack of awareness and program definition (54:6). ' The main reason ICRs will reflect inaccurate information is due to management philosophy, the

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reluctance of managers to "air their dirty laundry" by
holding up problems for scrutiny by higher level management
(54:7), even through the ICR program also allows for state-
ments of corrective action taken or planned. A third
reason cited for inaccurate information in ICRs was too
large a mission with too few resources (54:7). This is a
restatement of Forsythe's "program unresourced" (34:6-8).

One GAO report discussed the need for four Federal
Agencies to share information concerning approaches they
employed to identify and report internal accounting and
administrative control system weaknesses. This "informa-
tion sharing," either through formal reports, telephone
calls or other informal methods, was helpful to these
agencies by increasing awareness of fraud opportunities and
recently found prevention measures. Again, cost of ac-
quiring, analyzing, and distributing the information versus
its potential benefits was listed as an important issue.
One agency distributed "Fraud Alerts" periodically to
heighten its internal agency awareness of vulnerable areas
and recurring fraud schemes (41). This suggests that
sharing of ICR reports with source information deleted
could be of benefit in preventing discrepancies or
weaknesses at another organization. The procedure would
not be costly since Inspector General (IG) findings for
each ACC are already forwarded after inspections.

The Oklahoma City Air Logistics Center Comptroller formed a "quality team" from within their Internal Control Review Coordinating Group. Each member, besides being a member of the coordinating group, is the functional organization's ICR monitor.

When ICRs are performed, the center uses an evaluation checklist compiled by their ACM along with a set of policies and procedures from the coordinating group to ensure adequacy and documentation completeness (18:8). The group believes that these policies, procedures, and the checklist will bring conformity to the Air Force Logistics Command (AFLC) ICRs as they are used command-wide in forms tailored to specific missions (18:10). The checklist, with some revision, could easily be used in any command for any ICR and should be shared, but no evidence was found that the documents were recommended to anyone outside of AFLC (55).

In several PMCS papers, the authors recommended a "top-down" recommitment approach to ICRs in order to utilize experience and the perspective of involved organizations, any function short on expertise could then seek assistance (66:14). This approach would also ensure that managers at all levels were aware that the Internal Control Program (ICP), including ICRs, had the full backing and support of their agency heads (99:11) while expressing dissatisfaction with the current ICP efforts (79:11). If

required ICR reports lists were provided to each function early in the fiscal year, it would allow better scheduling, more information sharing, and a better product (66:14). It would also ensure upper level awareness and involvement in the ICP (97:4).

A paper from an AFLC program analyst mentioned that AFLC published AFLC Regulation 170-5 to provide "objectives, policies, responsibilities, procedures, and reporting requirements for the complete program" (18:2). This should be one of the first items included in an information sharing program between commands.

One Army paper called for automation of the internal review process (77:8). Once a new guiding regulation is published, this could be a labor saving idea. Networking could then provide the information sharing suggested by other papers as well as speed a final report to the requesting headquarters.

At the very least, mandatory information sharing between ICR monitors was suggested (81:8). Other types of inspection reports are currently passed through command, so ICRs without unit identification could be forwarded to other monitors as well. It might be more desirable "to require functional managers at one base to review internal controls at another base" (48:12-13). One interviewee suggested that headquarters should direct crossfeed of ICRs

to improve ICR performance, problem awareness, and correction measures (55).

Guidance and a New Regulation

Documentation of the completed reviews was frequently inadequate due to the absence of provision of an acceptable audit trail (43:5). The Air Force was singled out and cited for failure to list a specific problem within a material weakness area which precluded OSD and Congress from "effectively measuring successful resolution" of the problem found (43:7). Similar complaints were echoed in the study by Dykes (1982) and also in the PMCS papers.

Inadequate documentation or excess paperwork, along with poorly written ICR planning and control procedures, were found to be areas of concern in Air Force Audit Agency (AFAA) reports (10) as well as in the "idea papers" (96:8; 79:4). The AFAA, in their evaluation of the first year of the program noted that:

> whenever weakness in performing and documenting vul-
> nerability assessments and internal control reviews
> was found, confusion caused by general, inconsistent,
> and nondirective guidance from different sources was
> also present [18:6].

More than one "idea paper' documented the lack of guidance at the onset of the program followed by a paper-work avalanche (34:5; 99:3) which led to confusion and variations in program implementation due to "information overload" (79:4). Other papers called for simplification of MAJCOM guidance packages. In one paper, Jay Wallace

(1984) stated that he received a 150 page instruction package from HQ USAF while serving as the Strategic Air Command's (SAC) project officer. While it was a thorough set of instructions, he questioned the understandability and usefulness of the document because of its complexity, length, and lack of readability (95:2).

This author also remembers lengthy packages from her command. The base level packages would be complicated further by such things as MAJCOM forms (FY84) and MAJCOM guidance added to the already large (150 pages) HQ USAF package. Regardless of the education level of the monitor, volume alone could deter the reader from doing more than skimming the contents of such a large package. In FY85, the instruction package was further enlarged by several volumes of training manuals totaling 370 pages of instructions, descriptions, charts, and related ICR information (49). The very nature and complexity of the instructions and the time required to grasp the information by both the monitor and the Functional Area Manager may encourage "a less than totally honest eff:rt--perhaps even a 'pencil whip'" (95:3). These training manuals were written especially for the Air Force for FY85 by civilian contractors and were not used again for the FY86 directed reviews (49).

There were calls for revision and expansion of AFR 170-22, feelings ran high that program guidance should not

be changed "as one changed one's socks," but should be in the regulation (48:13; 97:11). A draft regulation, re-numbered AFR 123-X, was received in the field during S[ring of 1986 with a request for suggestions to be returned to headquarters, and a revised edition would follow. Even the revised draft AFR 123-X, received in early summer 1986, has met with criticism for not going far enough into solving the problems identified with the original AFR 170-22 (55). Numerous changes suggested to USAF/ACC will be incorporated in the new AFR 123-4 (currently the numerical designator assigned to the final AFR 123-X, if and when it is published (55).

Problems have already arisen and there have been delays in publishing the new regulation including a possible change back to the "170" series (Comptroller regulations) rather than the Inspection "123" series (55). All of this indecision has delayed approval of the revised procedures and made the job of the ICR personnel in the field more, rather than less difficult. Further, although the draft regulation appears to "go a long way" toward making the ICR program an "umbrella" for many other fraud, waste, and abuse programs, extensive year-end paperwork for commanders' certification is even more complex than the original program (55; 49; 90).

The Air Force'Audit Agency report on the FY84 ICR program also called for revision of AFR 170-22. The

Auditor General's report cover letter stated, "We recommend a single Air Force directive be issued to all program participants specifying all program responsibilities, procedures, and methods" (4:i,7).

Program Placement

Unlike later authors, Oppe' believes that an internal review function is "ideal" when placed in a "staff capacity to the commanding officer to ensure independence from operational activities and objectivity in the internal evaluation of the organization" (76:59).

One paper, after identifying the major internal problem within the Comptroller Division as, "which division will be responsible for managing the problem," suggested that a new function be established within the division whose "primary mission" would be designated as the management and monitoring of the internal control program (Army) (54:1,2). The author stated that, considering the corporate knowledge within the Comptroller community, Comptroller personnel could provide assistance to the functional areas designated to perform the reviews evaluating internal control systems (54:6). "Role playing" was suggested as a training technique or to test performance when reviewing internal controls. This would help to identify the controls that do not exist but are needed and what might happen if the controls were not in

place. They could highlight areas with excessive controls or controls that are no longer useful (69:4).

Another paper stated that, with proper staffing, ACC could assume the increased responsibilities and a function separate from the Comptroller (such as the AFAA) should not be established nor further tasked (91:1-2). The Navy program also locates the ICR function within their Comptroller operation '91:2).

Two other authors also believed that Cost and Management Analysis (now ACC) was the perfect location for ICRs since personnel are familiar with quantitative methods and, at all management levels, are capable of turning collected data into useful information, performing trend analysis on risk or vulnerability data within an ICR area, and performing special studies related to internal control weaknesses (63:14; 82:8). Although ACC now performs special studies, called Management Assistance Services (MAS), the function "would have to be staffed to cope with this additional tasking" (63:14). As is the case presently, the problem is one of personnel resources. Since manning in ACC (discussed earlier) is strained, perhaps the Internal Control Review Program could be joined to another such program to partially alleviate the placement or manpower question?

An article in the Armed Forces Comptroller established that internal controls and the productivity improvement

program have the same objective, "efficient use of resources," and therefore, internal controls should "be the focal point of productivity improvement" (86:39). The author further recommended that the two programs be "accomplished together" in the functional areas because of the interdependence and impact of the "efficient use of . resources" (86:39).

even more closely related to effective and efficient use of resources is the self-inspection program. Self-inspections were viewed by some authors as inadequate or ineffective in identifying weaknesses in internal controls. This inefficiency was further blamed on lack of command support for the ICR program from HQ USAF through MAJCOM and SOA's to the installation level (60:9). Wallace disagreed, stating that internal controls can be simplified through better self-inspection (95:6).

Wallace also recommended a revision of the current self-inspection program with checklist items covering compliance with internal control requirements. The spirit of the documentation requirements would necessitate more than yes/no answers to ensure that the process of evaluating the controls was also trackable and repeatable (95:5). Stover recommended including fraud, waste, and abuse (FW&A) items in the existing internal (self) inspection program to preclude creating a separate new system. He said that all medical treatment facilities personnel must "zero in on

potential FW&A problems in their sections" and felt that the self-inspection program could fill this need without creating a new reporting requirement (89:14). Stover implied that the FW&A coverage in self-inspections could easily expand to include documenting internal management control reporting requirements (89:14).

In his paper, Forsythe states that the Army's Internal Control Program (ICP) problem areas could be summarized in seven areas:

(1) Lack of specific ICP training,

(2) Emphasis on paperwork and reports,

(3) Program directed through functional channels [e.g. no command emphasis, no authority to complete],

(4) Manager's resistance [to the program in general],

(5) Poor program guidance,

(6) Inaccurate Commander's certifications,

(7) Program unresourced [e.g. no additional manning] [34:6-8].

Forsythe believes that managers and supervisors will in effect ignore the program because no accountability is levied on first line supervisors and supervising personnel are not rated for this area (34:14).

System Weaknesses

One GAO report discussed the inability of the National Aeronautics and Space Administration (NASA) to adequately met the Federal Financial Managers' Act provisions. The report stressed the need for the agency head to consider

four items when determining the status of its internal controls:

    (1)   significance of the weaknesses disclosed by the agency,

    (2)   status of corrective actions,

    (3)   comprehensiveness and quality of the internal control evaluation work performed, and

    (4)   extent to which accounting systems conform with the Comptroller General's requirements [45:2].

The implications were that NASA did not disclose any internal control weaknesses through the chain that had been identified by some of their internal review activities. A follow-up program had not yet become operational in NASA (45:3). A possible reason advanced for problems not being reported up through management channels was that corrections were in progress. This was deemed inconsistent with the provisions of the Act for reporting material weaknesses with plans and schedules for correction (45:5). One of NASA's identified weaknesses concerned computer operations of the space shuttle, but a specific area was not cited (45:5).

An additional GAO report discussed the Department of Defense's (DOD's) first year implementation of the Act, by looking into 22 agencies' efforts during implementation. Contained in the DOD Inspector General's assessment was the recommendation that the "Secretary of Defense's December 1983 statement be qualified to acknowledge that the

internal control process was not complete and consistent within the department" which is consistent with comments read in the Professional Military Comptroller School (PMCS) papers reviewed (43:3).

Another GAO report concerned the "Air FOrce's Progress in Implementing the Federal Financial Managers' Integrity Act." The report stated that, although improvements were seen over the previous FY, the Secretary of the Air FOrce should not yet report that AF internal control systems met the requirements of the Act. Several' points for improvement were noted; specifically that the Secretary should direct the Comptroller of the Air Force to ensure that:

(1) managers who perform vulnerability assessments and ICRs are adequately trained;

(2) ADP general and application control reviews are incorporated into ICR;

(3) [DOD] ADP Internal Control Guidelines are included as part of the [AF] guidance and approach for consideration and evaluation of ADP internal controls;

(4) responsible officials at all levels of the organization effectively perform their quality assurance responsibilities [throughout all programs];

(5) an inventory of accounting systems is promptly completed;

(6) appropriate manual and ADP accounting systems controls are tested in operation as an integral part of the evaluation process [44:3].

These findings suggest that Automatic Data Processing (ADP) will receive more emphasis from the GAO and the AFAA in

future years. The Air Force has room for improvement in areas such as training as suggested in the PMCS papers.

Other GAO reports cited problems such as the lack of a formal organizational plan to implement the internal control program (44).

Summary

Standards are needed to evaluate any system of management control. The GAO standards are similar to their civilian counterparts. Independence is the most frequently violated standard when internal auditing of internal controls is performed.

A good system of internal controls is built into the management schema. It guides managers in performance of their jobs. It protects resources and prevents "material weaknesses" in the system. If weaknesses or poor resource management techniques exist, the system of internal controls will identify them and provide guidelines for correction.

The system of internal controls should not be so complex as to defeat its own purpose and be unmanageable. For this reason also, its benefits must outweigh the "cost" of its implementation and use. The system is not one of absolute control, but minimization of risk.

The Air Force system of Internal Control Reviews has been extremely complex since its beginning in FY83. Placed in the Cost and Management Analysis Branch, training was

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inadequate to immediately reach the objectives of the ICR program. Program guidance was often received late in the fiscal year and was frequently difficult to comprehend because of its abundance.

Training is the number one concern of many sources. If the personnel administering and performing the program are not well trained, the program will not succeed. Private industry also feels the need for more training in the internal management control area. If untrained personnel ,must spend a great deal of time trying to learn the ICR program, there will be an additional strain on manning in areas that already feel they are burdened.

All branches of the service complained that their guidance was very lengthy during the first years of their Internal Control Programs. Air Force guidance needs to be streamlined. The guidance should be more consistent between major air commands and there should be information sharing. Although many managers are concerned about "airing dirty laundry," the literature showed that past attempts by other government agencies has been helpful. The GAO recommended the sharing of information between government agencies. Air Force Logistics Command is the only command to say that they are doing so. The Army believes automation is the key to this purpose.

A new regulation was called for during the Air Force Audit Agency's review of the first year implementation of

the ICR program by the Air Force. After three and one-half

years, the draft of the new regulation has only recently

been received in the field at the major air commands.

The Navy and Army locate their Internal Control

Programs under the Comptroller, much as the Air Force.

Only the Air Force seems to have fragmented its

administration to several directorates.

Some sources believe that there is a conflict of

interest when a functional manager reviews his or her own

area and that ICRs are duplication of effort with the

existing self-inspection program. Some sources also

believe that the Cost Analysis Branch is not a good

location for placing the responsibility of program

monitoring and administration, especially since ACC does

not administer the entire program.

III. METHODOLOGY

Introduction

This chapter provides an overview of the procedures that were used to address the research problem. The empirical method used to obtain information was a pilot interview. Also provided in this chapter is a discussion of the purpose and intent of each question used in the pilot interview.

Outline of the Approach

The general method used in this research is divided into four major steps:

1. Review of the existing literature on Department of Defense (DOD) Internal Control Systems, particularly the Air Force systems.

2. Data were collected on the Internal Control Reviews (ICRs) performed in the past. A carefully developed pilot interview of personnel in selected ACC functions within the Continental United States (CONUS) and current students at the Air Force Institute of Technology (AFIT) who recently left such positions was another vehicle for obtaining information on past performance data within the ICR program and for obtaining suggestions from base level and command personnel. Most Air Force major commands required manhour and performance data be gathered for each office and forwarded at the close of the fiscal year,

therefore these data were available for at least the last two years.

3. Analysis of the data was performed using the Statistical Package for the Social Sciences (SPSSX), tenth revision, computer programs on the VAX 11/785 computer using the UNIX operating system. The results of this study, combined with earlier research, addressed the following questions:

a) Is there a better way to run the ICR program?

b) Are base personnel managing the program in accordance with directives? Is it possible to do so?

c) Does duplication of effort cause a loss of productivity and incur costs?

d) Can the self-inspection program successfully incorporate the ICR program to the advantage of both? Or should the self-inspection program be incorporated into the ICR program?

4. Compilation of the results of data collection and analysis was completed, and interpretation accomplished.

The Pilot Interview

The standard questions (Appendix D) were asked in person or by telephone (depending on geographic location) of Cost and Management Analysis, Cost Analysis (ACM/ACC) office personnel who are the Internal Control Review (ICR) monitors for their bases or commands. Analysts were interviewed within each Major Air Command (MAJCOM) in the CONUS, two at MAJCOM ACC directorates, and one at a Special Operating Location, office performing as the ICR Office of

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Primary Responsibility (OPR). Several former ICR monitors, newly arrived Air Force Institute of Technology Graduate Cost Analysis students, were selected to complete a sample total of 31 subjects.

Selection of a base Cost Analysis Branch for interview was determined by size of its population and as a representative function for its command, e.g. for SAC, at least one missile base and one flying base were selected. Table I presents specific characteristics of the measured attributes of each question in the interview. The reader should note that some of the questions serve dual purposes, that is, they provide information in more than one area of interest.

The questions, most of which are based on a Likert scale (88), are divided into major topic areas, a brief discussion of each topic and of each question's thrust follows.

Reliability

Reliability measures the degree to which a measure (in this case a scale) is free of random variance, e.g., the degree to which the scale (the measuring instrument) is free from random error and is normally read as a percentage. This measure of internal consistency is considered excellent above .9 (90% reliability) and acceptable above .6 (60% reliability) (88).

TABLE I

Key to Internal Control Review Interview

Area:	Question No.:	Reliability Percentage:
A. Demographic/Background Data		
Amount of Services Provided	2, 3, 4, 30	N/A
Amount of Assistance Requested	27, 28, 29	.6270
MAJCOM	6	N/A
Rank or Grade	37	N/A
Base Population Served	38	N/A
B. Organization and Independence		
Conflict of Interest	31, 32	.7923
Independence	9, 10, 11, 26	.6375
C. Level of ICR Skills		
Experience	2, 20	.4648
Training	33, 34	N/A
D. Internal Control Review Performance		
Compliance	10, 14, 16, 17, 18	.6381
Cooperation	4, 5, 12	-.1684
Scheduling, Planning, and Control	6, 7, 8	.5547
Duplication of Effort	19, 24	.4856
Attitude	1, 15, 25	.5101
Understanding	22, 23, 24	-.7550
Impediment to proper completion of ICR's	39	N/A
E. Reporting Procedures		
ICR Process	8	
Final Report Content	18, 31	.1240
Documentation	10, 16, 32	.2558
Degree of Acceptance	12, 17, 21	-.0119
F. Recommendations		
Information Required	13	N/A
Realignment	19, 26	.2843
Assistance Needed	34	N/A
Open suggestions	35	N/A

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a. Demographic/Background Information (33:50-52):

The information covered under this topic serves two purposes: to separate the data by specific groups and to allow differential analysis based on the size of the installation, and amount of ICR services provided. Since all questions in this grouping are based on a Likert scale measurement techniques, and due to the straightforward nature in which the questions were asked, no bias of responses is expected.

Questions 2, 3, and 4 assess familiarity with the program, based on the number of reviews an office has conducted and the degree to which this information is disseminated.

Questions 27, 28, 29, and 30, ask how frequently Functional Area Managers request advice from the Cost Analysis Branch ICR monitor.

Questions 36, 37, and 38, request demographic information.

b. Organization and Independence (33:53-56; 1:39):

Evidence suggests the placement of Internal Control Reviews within the Comptroller Division may affect its ability to perform its mission. Auditing in the Air Force is usually performed by the Air Force Audit Agency (AFAA) and findings are considered on a par with major inspection results--discrepancies are black marks on a unit's record. Since separation of duties is one of the prerequisites for

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internal control, this section of questions also looked at monitors' perceptions as to violation of this standard.

Questions 31 and 32 look at the way ICRs are viewed by the monitor. Does the monitor feel he or she can openly work with the Functional Area Managers without reprisal, or does the "black hat" image of "inspectors" fall on the monitor and prevent open working relationships?

Questions 9, 10, and 11 look at the perceived impartiality of the monitors and if the Functional Area Managers felt they were performing an internal audit that was independent of their regular duty performance. This question arose because ACC/ACM is frequently called upon to perform special studies called Management Assistance Services. These studies are requested by a manager at any level and are designed to aid that manager in solving a problem. If the recently solved problem was one related to an ICR topic, there could be a conflict of interest. Further, if the managers felt they were "foxes guarding the hen house," it would have been difficult for them to judge their own programs objectively. "Independence is generally considered a matter of ethics, but in truth, the quality of that independence is an important central concept within [public sector] auditing" (33:53). Questions 9 and 10 called for an opinion to be formed concerning the amount of manning and adequacy of an audit trail, which may have invoked some bias. However, most experienced personnel

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would be unbiased in acknowledging that other duties were being disregarded in order to complete ICRs and, based on AFAA guidelines, could give an objective judgment on adequacy of documentation.

Question 26 investigates the concept of independence. Is the monitor independent, or does he or she feel only the AFAA is afforded the appropriate degree of independence to provide the Functional Area Managers with guidance?

c. Level of ICR Skills (33:56-59; 1:39):

Another standard of internal control pertains to "competent personnel" and states that "key personnel have high standards of integrity and are competent, by education, training, or experience, to accomplish their assigned duties" (Appendix D). In order to accomplish the objectives of the GAO, personnel performing ICRs should fit this description. These questions requested information on qualifications, experience, and training received by the current ICR monitor. Again, due to the straightforward nature of the questions, no bias is expected in the answers to these questions.

Question 2, used earlier in another context, was designed to shed further light on the extent of experience available to Functional Area Managers (FAMs).

Question 20 looked at the experience base of the individual monitor, thereby providing a view not only into

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the recommendations, but also into the experience base the monitor used in answering all other survey questions.

Question 33, asked for the amount of training received by the monitor (23:10). This question allowed a perspective to be placed on Question 20 as well as give a basis to judge performance and attitudes. If a recently selected ICR monitor received more training than a long time monitor, commands may be expending more resources on prevention of reporting errors and ensuring program understanding than in the past. If the long time monitor feels training received was or is inadequate, commands have not caught up with guidance or may not be able to do so.

Question 34 evaluated a monitor's needs and desires for more training to help them do their jobs. It also was designed to see if a better formal training program might be perceived as desirable (23:10).

d. Internal Control Review Performance (33:59-62; 1:39):

Compliance with legislation and AFR 170-22, adequate control, and flexibility are considered "essential ingredients" for an effective internal audit unit (33:59). The questions in this area were designed to look at compliance with GAO standards and their specific application in the Air Force ICR program. Also, how well did the Functional Area Managers cooperate with the base monitor in completion of ICRs, what attitude affected the cooperation efforts and

are ICRs viewed as belonging not only in ACM/ ACC, but also as a separate program? Once again, the Likert scaling technique was employed, and, although some opinion is called for, most questions are straightforward and MAJCOM feedback to a base on program compliance would forestall biased answers.

In the area of compliance with legislation and regulations, Question 10 asked for compliance with the audit trail provisions, while Question 14 asked for an opinion which touches the heart of internal controls--integrity. This question is a key one, for many of the Functional Area Managers in this author's experience asked about this issue. During the ICR training sessions she led, managers asked if they could "bluff their way through" a review. The AFAA's review guidelines made it clear that they would be looking for just that type of situation. The ICR monitor at each wing would be "tuned-in" to similar reactions, and through a spot review mentioned in Question 32, a discussion prior to forwarding an ICR to MAJCOM, and a strong follow-up program for identified weaknesses (Question 8), would have a very objective view of the performance of ICRs.

Questions 16, 17, and 18 were straightforward questions concerning support of the program by commanders. The measurement of this support is necessary to evaluate

meeting the GAO standards of "supervision" and "reasonable assurance" because commanders must ensure that the cost of internal controls should not exceed the benefits derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives (32:12-13).

The next series of questions looked at cooperation and overall management of ICRs. Question 4 asked if all scheduled ICRs were completed on time, the difference between the number completed on time and the number completed in Question 3 gave a good indication of whether or not Functional Area Managers not only cooperated with monitors, but planned, scheduled, and controlled their ICR process. It might also indicate whether or not a MAJCOM provided adequate lead time to perform an ICR.

From Question 5, if Functional Area Managers do not consider that ICRs are their responsibility, it could result in the percentage of ICRs completed on time (Question 4) being low.

Similarly, if ACC/ACM monitors "drag their feet" because they feel ICRs are an inappropriate burden for their offices, Question 12, it might affect the answers to Question 4 concerning the attitude of the Functional Area Managers.

Questions 6, 7, and 8 were a straightforward look at a formalization of a local ICR implementation plan. A well

organized program would tend to be on time, gain more command support, and be better implemented.

Is there a duplication of effort between programs? Question 19 is an in-depth look at placement of the Internal Control Review Program. If a monitor is satisfied, only the first part need be answered. The literature review revealed that many monitors have good ideas for improvement. Question 19 invited comments as to how the suggested improvements will affect an ACM/ACC function, while Question 24 is a cross-check of Question 19.

Questions 15 and 25, asked questions concerning the monitor's attitude toward the program. Question 15 asked for a personal evaluation as to the value of the subjects reviewed by ICRs. This answer relates to other areas as well, such as training, understanding, and performance.

Question 25 sought to learn if monitors believe compliance is rewarded or non-compliance noted. One of the tenets of management is control; without feedback managers tend to lack control.

Questions 22, 23, and 24, were designed to evaluate how well monitors understand the thrust of the program and if they found the ICR program to be valuable in resource management. All three questions were straightforward, but do leave room for some bias based on the wording within the questions. The results will be checked carefully with Question 39.

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Question 39 was intended to ascertain information concerning the cause or causes of either the FAM's or the Cost Analyst's inability to comply with the Internal Control Review Program. Due to its subjectivity, there may be some bias in these answers due to the "open-forum" type of answer sought. Much valuable insight, however, may be gained into perceptions of what causes non-compliance and non-performance.

   e. Reporting Procedures (33:62-66; 1:39):

The ICR reporting procedures are the only means prior to an AFAA audit that bases have to "communicate their findings to management" (33:62). Furthermore, they should be the means by which recommended improvements in various programs and regulations reach the proper level quickly. Questions under this topic were concerned with how well AFR 170-22 and command guidelines are met. Questions in this area also used a Likert scale to allow for categorization of information.

Question 8 requested a yes/no response regarding a recent additional review requirement. The first year or so of the program formal follow-up procedures were not required. ACC became the monitor and reviewer of follow-up procedures later. Formal schedules for correction were required to be coordinated between Functional Area Managers and the ICR monitor.

Questions 18 and 31, previously discussed, were also used to determine if final reports are in compliance with existing requirements. While Questions 10, 16, and 32, also discussed above, are a verification of compliance with documentation requirements.

To determine if the ICR program is readily accepted, Questions 12, 17, and 21, discussed previously, measure a monitor's feelings about where the ICR program is going and his or her perception of its effectiveness.

f. Recommendations:

The most important section is also the most subjective one. The questions here were all designed to find out what monitors suggest may be done to improve a program that is not meeting objectives. Based on their experience and insight, how would they improve, change, etc? There may be personal biases involved here, but many sound recommendations were expected and those not feasible were discarded. If training is inadequate, it could cause a pyramid effect to damage other levels of the program. The questions in this section were carefully analyzed and paraphrased to protect the anonymity of the suggestor.

The first, Question 13, looked at the process of "crossfeed" of inspection-type items between bases. Inspection discrepancies are forwarded prior to MEIs and ORIs. Why should not a command's ICR findings and methods be shared as a "lessons learned" concept to be passed on

within or even across commands? A new ICR monitor could increase his or her knowledge if a continuity folder, similar to those used throughout the Air Force, were available.

Questions 19 and 26 looked at the idea of realigning the ICR program. A yes/no response precedes an in-depth appraisal and subjective suggestion area for where the monitors feel ICRs fit.

Question 34 asks if monitors need any additional training to extend their knowledge of the program and, therefore, their performance.

Answers to Question 35 were entirely subjective. For example, the ICR monitor was invited to have a brainstorming session or air ideas concerning suggested improvements gathered over the months of working with the program.

Analysis of the Data

The statistical Package for the Social Sciences (SPSSX), tenth version, on a VAX 11/785 computer, was employed to compute the needed statistics (73). Results such as the mean number of hours spent to finalize an ICR, average number of reviews performed per office per fiscal year per command, and the number of ICRs late to MAJCOM were calculated. Series of correlations were run between the questions as grouped in Table I to determine how answers interrelated. Reliability was estimated and is reported with the items entering into each scale in Table

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I.   Percentages of responses by question were obtained by using the "CROSSTABS" option.

Testing the Results of Analysis

Statistical tests were completed to check for differences between two groups, those who believed the program should be changed and those who did not. In only one area, that of installation population, did the two groups differ significantly. Personnel assigned to bases of between 6,000 and 10,000 personnel tended to believe the program should be changed. Personnel at smaller bases or larger bases tended to be more satisfied with the current ICR program.

Summary

This chapter outlined the methods used to complete research for this thesis. A structured interview was administered to a pilot sample from commands in the continental United States and the Air Force Institute of Technology.

The SPSSX computer programs were run on a VAX 11/785 (UNIX) to provide data for analysis. Open-ended question responses concerning the same question were grouped by type of response and are reported in the next chapter.

Conclusions about the data and recommendations for improving the ICR program are found in Chapter V.

IV. FINDINGS

Introduction

Of the 31 personnel responding, 18 were able to pro-
vide performance data from Fiscal Year 1983, 23 had records
from 1984, and all 31 had data from 1985 and 1986. The
three command level answers reflected hours reviewing
Internal Control Reviews (ICRs) forwarded to them by their
bases and vulnerability assessments performed. These hours
are not included in the calculations below because commands
do not actually perform the Internal Control Reviews.
Commands are responsible for overall program administra-
tion, summarization of base data, the command year-end
certification, and dissemination of guidance/information.
These actions still expend time and money, but at a
different rate than used by the base ICR monitors.

When reviewing the following statistics, a copy of the
questions (Appendix D) should be helpful to the reader.

Question Responses

Amount of Service Provided - Questions 2, 3, and 4.
In Fiscal Year 1983, the 15 bases with records spent an
average of 181.5 hours per office (usually performed by
one analyst and one secretary/administrative assistant)
performing an average of 14.5 ICRs per base. Several Cost
and Management Branches also worked with the Accounting and
Finance Branch (ACF) that year to perform an additional

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number of reviews. The hours ranged from a low of 37 at one base to a high of 804, but most offices registered between 100 and 200 hours each. The number of ICRs completed ranged from 2 to a high of 30 with the majority logging between 10 and 20 ICRs each.

In Fiscal Year 1984, 20 bases performed an average of 180.6 hours completing an average of 10.1 ICRs per base. Again, the Cost Branch worked with ACF to complete as many as seven ICRs at one base. The range of hours went from a low of 8 to a high of 1803, with the majority (16) reporting less than 110 hours each. The number of ICRs completed ranged from none to 20 fairly evenly distributed through the scale.

In Fiscal Year 1984, the 28 reporting bases spent a lower average of 101.4 hours each performing an average of 7.3 ICRs per base. There were 8 additional "compliance" reviews and many Cost Branches assisted with additional ACF area ICRs. The range of hours went from "less than an hour" to 828, with most offices (25) recording less than 100 hours per base. The range of ICRs completed went from none to 14.

In Fiscal Year 1986, including estimated hours for completion of the end of year commander's certification, the bases estimate they will spend an average of only 52.8 hours completing only 1.5 per base, while assisting ACF with at least 2 more average per base and several

vulnerability assessments for commanders desiring to perform self-initiated ICRs next fiscal year. The range of hours is estimated from a low of 1 to a high of 300, with the number of ICRs being completed ranging from none to a high of 6 (including several self-initiated). During the fiscal year, it was estimated that each Cost Branch will be involved in from 1 to 6 follow-ups on previous ICRs. They will spend most of their ICR hours completing the end of year reports and training new Functional Area Managers how to perform ICRs. At some locations Accounting and Finance does not consult with the Cost Analysis Branches in ICR review procedures, nor are they required to. At some bases they work closely together, but the ICRs are directed from different sources as mentioned in Chapter 2.

Training - Questions 33 and 34. Mixed responses were received as to the degree of training received as the ICR monitor. Seven (22.6%) felt that they had received extensive training to prepare them for their ICR monitor duties. Eight (25.8%) stated that the training was adequate but could have been better. Eight more (25.8%) said they received minimum training to assume their duties, while the last 8 (25.8%) said they received no training to speak of and were mostly self-taught.

The majority of those who felt that they had received extensive training were in AFLC (5) while half of those who stated they had received no training (8) were in SAC (4).

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Many monitors chose to further amplify their answers.
Some stated that the original guidance received was inade-
quate and received too late in a fiscal year to be of
value, especially at the beginning of the program in FY83.
Frequent changes were made to the program and confused FAMs
did not bring them into the loop during a time when they
were required to closely monitor the program. Since they
received their Air Force and Command guidance and training
packages late, they were often embarrassed in front of the
Functional Area Managers (FAMs) whom 'they had to train.

A number of monitors commented on the limited
usefulness of the 327 page training course packages
mentioned earlier in this research. Some monitors felt
that it "sat on their shelves gathering dust" because no
one had the time to really read, comprehend, and employ
it. AFLC personnel tended to feel it was a "great" course,
but really intended for command use as it is quite lengthy.
Only a few felt the course was "super" and really used it
when training other managers or when spot-checking documen-
tation. These few stated they had been given explicit
instructions and training on what parts of the course they
should know and use and what volumes were for the FAMs use.

Only three of the 31 respondents (9.7%) felt
sufficiently trained to the point they did not need further
training as asked 'in Question 34 (see Table II below). Ten
persons felt that they would benefit from training in only

one area and six felt they could benefit from training in two listed areas. Six monitors felt that three of the areas cited would benefit them, and two cited four areas they would like to learn more about. Three persons felt that there were five areas from which they could gain insight, and only one felt all seven would be valuable. A breakdown of how the numbers of responses went with each area is above in Table II. The most common response patterns included items number 1, 4, and 7, or items 4, 6, and 7 together. Of the three personnel not desiring further training, one had been stationed at a higher command level working as a command monitor, and one had prior audit agency experience.

Table II

Training Areas of Benefit

Response #		# Desiring more training
1.	Auditing Procedures and standards	16
2.	Accounting system review	6
3.	Automatic Data Processing Controls	8
4.	Knowledge of applicable law, AF and command regulations and policies	11
5.	Resource Management training	6
6.	Identifying Air Force ICR program objectives	8
7.	Necessity for the Internal Control Program	15
0.	No further training required	3

As discussed in Chapter 2, training is a critical area. GAO listed training as a "Number 1" priority in their list to the Secretary of the Air Force (44:151). Forsythe likewise stated that it was the Army's first major problem area (34:14).

Questions 19 and 24. In Question 24, monitors were asked to indicate their agreement with the statement that ICRs are "just another self-inspection." Many monitors had already responded that FAMs felt ICRs were just another self-inspection during their comments while answering Question 1. A number of monitors had also previously answered in the affirmative when answering Question 19. Eleven monitors (35.5%) agreed strongly that ICRs were a form of self-inspection and 12 (38.7%) agreed somewhat. Five (16.1%) felt they could agree "a little" that it is another self-inspection, but that it had "more going for it" than the often "pencil whipped" self-inspection process. Three (9.8%) monitors felt they were not related programs at all because ICRs go beyond the basic self-inspection concept.

Question 19. Monitors were asked if ICRs could be incorporated into any other program. A large number (26 or 83.9%) said emphatically "yes," only 3 (9.7%) said "no," with 2 (6.5%) unsure.

Most monitors felt that self-inspections were the logical place to evaluate management controls in the form of

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ICRs. Increased accuracy, reduced reporting requirements and recapture of Cost Branch duty hours were three reasons cited for incorporations with other programs. Some monitors felt incorporating the two programs would reduce the temptation for "pencil whipping" and add quality to a flagging program. Many programs when not emphasized seem to fall by the wayside; this would revitalize and re-emphasize the importance of internal management controls.

In-depth analysis, evaluation and testing of processes and problems are some of the objectives of self-inspection but are frequently ignored to speed the process. When doing ICRs, managers are afraid to do in-depth analysis for fear of airing "dirty laundry" and opening themselves up for later criticism. If the two programs were incorpo-rated, performing ICRs would become part of routine management procedures. The "monkey" would be off the back of Cost Analysis, reduce the "black hat" image, and place the vice commander of a base or wing in control. This improves management support, visibility, and awareness of the ICR program in general.

One monitor felt that removing ICRs from the Cost Branch loop into either self-inspection or the IG circuit would allow Cost Analysts to do "cost work." The recent name change, from Cost and Management Analysis to Cost Analysis, should not be in vain. Analysts are not and should not be experts in every field. Analysts see them-

selves training FAMs and checking paper--a violation of the span of control concept since Cost Analysts can not affect another area's personnel evaluations.

Sixteen of the people who answered "yes" to incorporation also felt that manhours could be regained for Cost Branch work, for 51.6% of the total. Eight (25.8%) felt that as the program stands now, no manhours could be saved, two (6.5%) felt that it was a good idea, but no manhours would be saved because program administration will never go away. Three (16.1%) monitors didn't know if hours would be saved or not.

The number of manhours expected to be saved per fiscal year ranged from none (10 or 32.3%), as mentioned above, to "less than 15" (9 or 29.0%), to "16 to 30 hours" (2 or 6.5%). Two monitors each also felt that "31 to 45 hours," or "46 to 60 hours," or "over 60 hours" might be recaptured (2 or 6.5% each). Four respondents (12.9) declined to make an estimate.

Questions 35 and 39. These questions were the most subjective posed during the interviews. Twenty-three personnel said "yes," they would change the ICR program if they could. Seven (22.6%) said "no," they would not, and 1 (3.2%) "didn't know."

Of those personnel desiring change, most referred to Question 19 and recommended elimination of the program or inclusion into a mandatory self-inspection program. One

answer indicated that the program was "not suited to a military organization but was better suited for the remainder of DoD." More locally instituted ICRs for commander use was suggested, as well as moving the program under the IG. The suggestor felt that under the IG there would be an objective fresh look. Too many FAMs cannot "see the forest for the trees" one of the reasons the "independence" GAO standard was originally conceived.

One monitor suggested making ICRs an MEI or command special interest item (SII). Another suggested including it under the Fraud, Waste, and Abuse (FW&A) regulation "umbrella" with quarterly meetings held in conjunction with a base FW&A council.

One monitor suggested a "cross-over program" where FAMs from one area would visit another area and assist with an ICR. They would have nothing to lose and reciprocity could help the FAM find a weak area not seen by others working in the review area.

Some respondents stated that the amount of paperwork would be cut if the program were streamlined. Incorporation with self-inspection would also reduce reporting requirements. Several monitors stated that Accounting and Finance has been doing an ICR type Quality Assurance (QA) program for years, current ICRs are similar to QAs, the FAMs and remaining Comptroller community could learn from ACF. Even a minor format change could render the program

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simpler, easier to understand, and more like the QA program it appears to be mimicking. A testing and evaluation approach would make the program more beneficial to all managers.

Another suggestion advocated more "unique" subject areas, e.g., those not already covered under a self-inspection or other internal audit program. Other suggestions included better coordination of efforts through the chain of command, getting the list of required ICRs into the field sooner, and getting the Cost Branch back into the reporting loop between the FAM and the base/wing commanders.

Serious impediments to proper completion of ICRs included lack of training for, and program awareness of, the Functional Area Managers, and their poor attitude toward an "unnecessary program." FAMs tend to follow "the letter of the law" without meeting the true intent of the program-- better internal management control over resources.

Monitors stated that, since the program is difficult to explain and difficult for some to understand, it is not well accepted. Managers believe that fear of reprisal often keeps everyone from accurately performing ICRs and reporting weaknesses.

A large concern of several ICR monitors was the quality of personnel appointed by managers to complete ICRs. Often the appointee is a new arrival or a person

junior in rank and experience because the senior managers are "too busy." These personnel may not be familiar with the functional area, be inexperienced in general, and lacking in understanding of resource management and the objectives of internal management control systems. Competent, qualified, and well-trained personnel are needed to perform ICRs. Inexperienced personnel can harm rather than help the process.

Manning can cause FAMs to treat the program as "nice to have, but..." the effort is not perceived as worthwhile. The efforts expended thus far have exceeded the benefits received.

Other limitations seen by the monitors were the lack of standardization in the program throughout Air Force major air commands and the delays in getting the new regulation into the field. A new one is needed as soon as possible. The large amount of documentation required for future audits, end of year certification, and inspections is stated as detracting from the purpose of the ICR. Guidance on the amount and type of documentation should be standardized and included in the new regulation. Current guidance frequently comes from the major air commands and is difficult to follow. Monitors feel as if they are "always defending" the program (see responses to Questions 1, 5, 11, 14, and 21). The new regulation should include examples of what documentation makes a viable audit trail,

and tips on how to train FAMs since cost analysts are not trained instructors.

Lack of coordinated effort and lateness of the annual ICR list into the field were also cited as detrimental to the program. If ICRs became a "theme program" a "tip of the month" could keep awareness peaked without imposing more controls while making the objectives clearer.

Question 1. The majority of personnel surveyed feel that the ICR program is redundant. They also stated (67.7% or 21 responses) that the ICR requirement was unnecessary. Three responses (9.7%) identified the program as "a necessary evil." Several stated that as the program becomes a way of life, it gains more acceptance, but the FAMs feel they are audited by everyone. In the opinion of several ICR monitors, a program that was once misunderstood is now being tolerated by the FAMs.

Two monitors (6.5%) commented that their FAMs thought the program is a good one, they are glad to find more ways to identify errors. Three (9.7%) felt that it is a fair program, while one (3.2%) had mixed responses and one had received no feedback (3.2%).

Questions 2 through 4. The average Cost Analysis Branch spent one work week a year (42 hours) monitoring, correcting, training and completing the administrative duties required to perform an average of 5 ICRs per year. Recently, FY 85 and FY 86, this number has dropped from 10

per year and 22.6% (7 respondents) of the offices, there have been no ICRs required during these two years.

Twenty-three bases, or 74.2%, had no late ICRs, others had one or two, with one base reporting 11 late over the four year course of the program. Most monitors stated that it took a great deal of effort to prevent late reviews. They often called the Functional Area Managers a few days or a week before a review was due to the commander to remind them of their responsibilities.

Questions 5, 12, and 26. The ICR monitors felt that most Functional Area Managers had come to understand that performance of a review was their responsibility (19 or 61.3%), but 10 FAMs (32.3%) felt that it was either a Comptroller Division exercise or belonged to another agency such as the Audit Agency. Two monitors were not sure how their FAMs felt about the subject.

Exactly the same number (19) of Cost Branches felt that ICR monitoring belongs in their office with 10 again feeling that the Auditors or Inspector General should have the responsibility. Two were not sure what the proper location for the program is if it is not in Cost Analysis. Many respondents had mixed feelings, since cost analysts are not properly trained as auditors (see Training above) to monitor the program.

Supporting the idea that Cost Analysis is the proper location for the program, 6 monitors (19.4%) felt strongly

that ICRs should be performed by a separate agency, one was open to the idea of a separate agency, but the remaining 24 responses (77.4%) felt that a separate agency would not really be the answer.

Questions 6, 7, and 8. Most Functional Area Managers do not have a formal plan (20 or 64.5%) beyond the Air Force and command program instructions as far as the monitors know, while eight (25.8%) knew of at least one such plan at their location. Three did not know if their FAMs had a formal organizational plan.

Exactly the same number (20 or 64.5%) Cost Branches do not have office instructions, but 8 (25.8%) have incorporated ICR procedures into office memos, self-inspection programs, or in one case, a complete ICR handbook/continuity folder.

Almost everyone was aware that a formal follow-up plan would be required if material weaknesses were found but only 24 had a formal plan. Seven said that if a weakness were found, a plan would be written.

Question 9. Most monitors felt that, as long as the program remained the way it is now (heavier workload on the FAMs rather than ACC), there were sufficient personnel assigned to their office (25 or 77.4%). Five (16.1%) felt that they were undermanned, and 1 (3.2%) was not sure since it was a recent assignment.

Questions 10, 31, and 32. The majority of monitors (24 or 77.4%) stated that reviews provided an adequate audit trail for future inspections. This was attributed by 15 monitors (48.4%) to the fact they frequently discuss reviews before they are forwarded to command, and 3 more (9.7%) do so occasionally. One response registered a rare occurrence of a meeting prior to forwarding, while 9 (29.0%) said they never saw the reviews until forwarding since the program took ACC out of the direct loop to the commander. The three remaining respondents were command level, therefore the question was not applicable.

Twelve (38.7%) spot-check review audit trail paperwork frequently to ensure FAMs are in compliance with ICR documentation requirements. Five (16.1%) monitors do this type of a review sometimes, 4 (12.9%) do so rarely, and 10 (32.3%) never review the documents.

Question 11. Monitors were divided on this question. 14 (45.2%) felt that FAMs were generally free to do their work independent of pressure from senior management, but 7 (22.6%) said that at least one person at their base was not given independence to report findings and recommendations. Ten (32.3%) were sure that most of the time they were not told whether a FAM was independent.

Question 13. Most responses were in favor of a crossfeed program (27 or 87.1%), but several qualified it with comments about timeliness or relevancy. Three (9.7%)

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were not sure that crossfeed would be of value. Reasons given included getting the data to a base soon enough to be of value and reluctance to see another possible Management Effectiveness Inspection (MEI) item.

Anonymity received mixed comments. It was considered good for protection of errors, but poor if a base needed to follow-up a report and obtain more detailed information to apply a corrective system or improve procedures.

Question 14. Although 10 (32.3%) said that they felt the ICRs at their bases were not being "pencil whipped," a larger portion (20 or 64.5%) felt that there was some degree of personnel either not reporting what they found or writing a report without physically performing an internal review. One person declined to comment. Several persons stated that, although they could say there was no "pencil whipping" happening now, in the past they had caught one or two ICRs that were "suspicious" and had them rewritten.

Most comments centered on the idea that many FAMs consider the program either "unnecessary" or a "necessary evil" and do the minimum amount of research they can to "get by." Many FAMs are deeply concerned about "airing their dirty laundry" to the world and therefore "shooting themselves in the foot." They therefore often delay the writing of a review until they can get a problem fixed (see Question 4) or keep the findings shallow, according to the ICR monitors.

Question 15. This question seemed to cause some confusion, when the words "subjects of substance" were substituted for "appropriate subjects," the confusion cleared. Eighteen (58.1%) felt that subjects were not just "bean counting" or administrative exercise type subjects, but 9 (29.0%) did not, and 4 (12.9%) were not sure. Most comments seemed to reflect that ICRs are now repetitive and risk becoming less meaningful as topics are depleted.

Question 16, 17, and 18. Most (26 or 83.9%) felt that ICR findings were being properly reported to the commander because they worked toward that goal. Two (6.5%) felt that the "possible pencil whipping" prevented all the "true results" from being reported, while 3 (9.7%) just were not sure.

Most Cost Analysis Branches felt that the local commanders supported the ICR program (24 or 77.4%) partly because they had to certify an annual statement. In TAC, only the MAJCOM commander signs the annual statement and the TAC respondents still feel they enjoy command support. Three (9.7%) felt that their commanders did not support the program fully because it was duplicative and 4 (12.9%) didn't know since there had been few or no ICRs performed since they had become the monitor.

Thirteen monitors (41.9%) felt that their commanders would get involved if weakness were found during a review, 10 (32.3%) said they would not, but might pass it to vice

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commanders or squadron commanders. Eight (25.8%) did not care to venture an opinion, since no weaknesses had been found during their tenure as the ICR monitor.

Question 20. Most monitors had been performing duties either a short period, 0 to 12 months (13 or 44.8%), or a longer period, 25 months to since the program began (12 or 41.4%). The remaining 13.8% (4) have served as ICR monitors between 13 and 24 months.

Questions 21, 22, 23 and 25. The larger number of responses (13 or 41.9%) stated that FAMs saw Internal Control Reviews as only a little help in controlling waste, fraud, and abuse. Seven responses (22.6%) felt that their FAMS saw them as somewhat of a help, 6 (19.4%) felt they were not seen as a help at all, while 5 (16.1%) did not know how their FAMs felt about the issue.

The monitors themselves believed that (4 or 12.9%), if the reviews were properly performed, they would provide insight to the commander for resource control and management. Five (16.1%) felt that the insight was limited to slight (18 or 58.1%) because of the way the ICRs were performed or used rather than the way they are intended to be used. Four (12.9%) felt that the commander gained no insight.

Monitors believe that internal controls are necessary management tools. Twenty (64.5%) felt they were a very necessary tool, 6 (19.4%) felt that they were somewhat

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necessary, 4 (12.9%) felt they were a little useful, and only 1 (3.2%) saw them as useless. Comments centered on overuse versus quality tools. The abundance of controls in multiple enforcement forms is a burden to managers according to monitors in the latter two categories.

A few managers agreed that including what was expected and how a manager handled internal control responsibilities in performance reports might be very valuable in gaining support for the ICR program (6 or 19.4%). Nine more re- spondents (29.0%) felt that it might be somewhat of a help, but 11 (35.5%) felt that it would only help a little, and 5 (16.1%) felt that it would be of no value. Many monitors stated that, if performance reports were truer measures of performance, the inclusion of how well one employed internal controls would be unquestionably valid. The current feeling is that their inclusion would be just another inflation factor. Others felt that including internal controls in performance reports could improve the program visibility greatly.

Several monitors stated that internal controls would be especially appropriate in performance reports of personnel responsible for major resource management. Cost analysts, for instance, are often involved in the "Report of Survey" program, as are commanders. How well they meet the challenge of this task should be documented. One monitor stressed that senior management is supposed to

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support the program whether or not the responsibilities are documented in any type of performance reports.

Questions 27 through 30. Only 5 monitors (16.1%) are frequently called to assist FAMs completing ICRs. Nine (29.0%) are called in sometimes, 7 (22.6%) rarely, and about one-third (10 or 32.3%) have not been called in at all. Similarly, 6 (9.7%) have been asked to assist in gaining commanders' support sometimes, 2 (6.5%) were rarely asked, while 23 (74.2%) have never been asked.

With regard to training, 11 monitors (35.5%) state they are rarely asked to provide procedure training and 7 (22.6%) are called sometimes. Monitors state this occurs primarily because the monitors contact the Functional Area Managers and provide training as soon as a new ICR requirement becomes known. Only 3 (9.7%) said they receive frequent requests, while about a third (10 or 32.3%) have never been called to provide training.

Monitors are more frequently used as consultants during ICR proceedings. According to the monitors, this role entails further explanations of objectives, definitions, review of documentation, and formatting. Eleven (35.5%) stated that they were sometimes requested to serve as consultants and 4 (12.9%) were frequently called. Nine monitors (29.0%) were rarely asked to serve in this capacity while 7 (22.6%) had never been contacted for this service. Those not being contacted felt that it is the

FAMs place to contact them when problems arise. They, the monitors, have been advertising their availability, but the requests for their services is lower than they would like.

Question 37. Captains made up the largest number of monitors interviewed (9 or 29.0%) with Lieutenants second (6 or 19.4%). Five personnel (16.1%) interviewed were GS-12 or higher with 3 (9.7%) GS-9 personnel involved. Two each of the Staff Sergeant/Technical Sergeant rank and the GS-11 categories were interviewed amounting to 6.5% respectively. A Master Sergeant, one Colonel, one GS-6, and one GS-7 (3.2% each) completed the 31 interview participants.

Question 38. Eight bases each of the "4,001 to 6,000" population (25.8%) and of "over 12,000" (25.8%) were repre-sented. Five bases represented the "2,001 to 4,000" cate-gory (16.1%) and four bases met the "6,001 to 8,000" (12.9%) category. Two bases each fell into the "0-2,000" population category, the "8,001 to 10,000" group, and the "10,001 to 12,000" categories accounting for 6.5% of the respondents each.

Analysis

Each question was statistically compared to base population, rank structure, Major Air Command of the ICR monitor, the length of time an ICR monitor had served, and level of training each felt they had received, the major results follow.

Interrelationships. Of the Functional Area Managers who felt ICRs are their responsibility, the majority felt the program was unnecessary. It was not a function of their major air command MAJCOM or the length of appointment time of their ICR monitors.

If there was no additional formal plan, either in the FAM or the Cost Branch, the personnel felt the program was unnecessary. This was also not related to the amount of time served as a monitor or the command, except within SAC. Strategic Air Command (SAC) personnel felt that the program was good.

SAC personnel stated they were better trained than the other commands who had no formal plans.

The fact that a monitor or a FAM felt the program was unnecessary was not a function of time as the ICR monitor or the command to which they were assigned.

Those personnel performing ICRs who felt that the program was unnecessary tended to feel crossfeed would benefit the program. The desire for crossfeed was not a function of time served as an ICR monitor of the MAJCOM of assignment.

The majority of monitors felt that there was some "pencil whipping" at some point during the program, although SAC personnel recorded none. This also was not a function of the time served as monitor or the command, except within SAC.
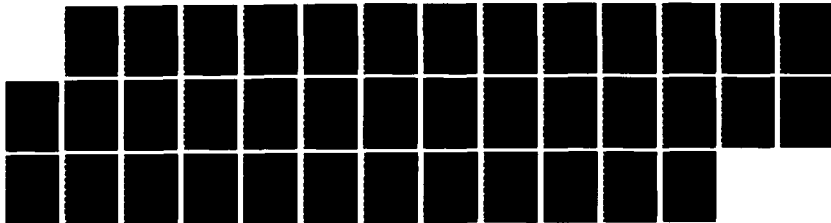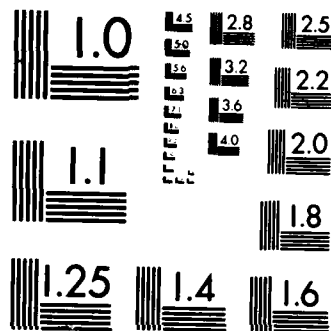
MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

Those whose FAMs felt the program was unnecessary tended to feel the ICR subjects were appropriate rather than clerical. This was not a function of the time served as an ICR monitor or the command to which assigned.

SAC personnel whose FAMs rated the program as unnecessary think that weaknesses were properly reported to a supportive commander. Otherwise, those who felt that the program was unnecessary and the relationship with their commanders was not a function of command or time served as monitor.

Commanders were not as involved when responses indicated that the program was unnecessary, this was not a function of length of time in monitor duties or the command.

Those monitors whose FAMs felt the program unnecessary also advocated merger with another program. This was found especially within AFLC and SAC.

The ICR Program was not believed by FAMs to be an aid at all or only rarely controlling fraud, waste, and abuse when they felt that the program was unnecessary. This was not a function of command.

Feelings that the ICR program provided insight to the commander were also not tied to command or length a monitor had served.

Internal controls were considered very important even when the ICR Program was felt unnecessary, regardless of length of monitor duties or command.

Those monitors who felt that the program was unnecessary predominantly (74.2%) were those who felt that ICRs are "just another self-inspection" without regard for length of monitorship or command.

Monitors and FAMS who felt that ICRs should not be a separate office under the Comptroller especially felt that the program was unnecessary overall without respect for length of time in monitor duties or MAJCOM.

Monitors who were rarely asked for assistance were also those who felt the program was unnecessary. ICR Monitors who were asked to act as consultants were split between those feeling the program was unnecessary and those that did not, but the results were not a function of length of time served as ICR monitor or MAJCOM.

Those monitors and FAMS who felt the program was unnecessary did not fall into any particular rank structure, nor did the majority of the questions show a significant response imbalance within rank. Captains, however, did have a strong desire to see a mandatory crossfeed program and ICR program changes implemented.

Internal Controls and the Internal Control Review Program are seen as additional duties, an added responsibility with no added benefits. Headquarters Air Force

Logistics Command employs two GS-12s almost full-time as the command ICR monitors. Base Cost Analysis Branches have not seen any increased manpower authorizations to cover the added workload, nor have functional areas. The concept of an "additional" duty de-emphasizes the importance of internal management control. Comments from monitors indicated that Internal Control Reviews are an "albatross" and "cumbersome" to manage, making a manager's job more difficult, not simpler.

Summary

The statistical data supports the investigative questions. Monitors feel that the current ICR program is managed in accordance with existing directives, but a new less complex directive is needed. A new directive should simplify and consolidate guidance, standardizing procedures across commands.

Survey results suggest that "there is a more efficient way" to run the Internal Control Review Program. The majority of the interviewees feel that it should be stream-lined and incorporated using a new mandatory self-inspection program to ensure effectiveness.

Duplication of reports and general duplication of fraud, waste, and abuse efforts need to be decreased. This suggested change is expected to decrease manhours expended, increase productivity within the ACC Branches (as well as the functional areas) and improve the attitude toward, and

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management support of, the ICR program. The costs will decrease and benefits increase. Managers' attitude toward the program will change as the program benefits rise.

Incorporation of the ICR program into self-inspection will "put teeth" into the self-inspection program and allow the ICR program to be perceived as a management tool, not just another additional, and resented, duty.

V. CONCLUSIONS AND RECOMMENDATIONS

Introduction

This study was unusual in that it is designed to evaluate an evaluation program. Reports from practitioners led to many questions about the Internal Control Review Program ranging from questioning its cost effectiveness to doubting its overall usefulness. Findings (Chapter IV) indicate at least some problems as well as some solutions which have been suggested by practitioners. The results of this study suggest the primary problem areas to be:

1. Lack of education and training of both monitors and managers.

2. A strong feeling that the Internal Control Program is unnecessary; a duplication of effort, with other programs.

3. A questioning of the costs versus benefits received through implementation of the program.

At the operational level there seems to be a misconception and sometimes a complete lack of understanding of the purpose and objectives of the Internal Control Program. There is evidence that many reviews lack in-depth analysis as a result of the above and other factors (see Questions 14 and 15). Managers and commanders at some levels hesitate to commit manpower and money resources to a program they feel belongs primarily to the Comptroller Division, again suggesting a lack of understanding.

Training and Education. It certainly is not clear to
many involved in the performance of the ICR program whether
the purpose of ICRs is to discover or immediately correct
problems identified through an ICR, or to prevent these
problems on a larger scale, such as wing or command.
Training was needed in a number of areas in the view of
many of those interviewed (see answer to Question 34 in
Chapter IV). Many respondents felt that they needed a
review of the program's objectives. Training was also seen
as of the utmost importance by both the GAO and the Army's
Forsythe (34:6-8; 44:3).

Confusion over guidance has caused problems at a
number of bases whose ICR monitors were interviewed.
Several bases in separate commands have a handbook or
checklists for monitoring and completing ICRs. Recommend
these be gathered, reviewed, and made into an Air Force-
wide handbook which would use the new guidance as its
basis. The current 300 plus page instruction volumes are
too cumbersome for most personnel to digest and implement,
unaided.

There is evidence at the operational level that all
material weaknesses are not being reported properly (45).
Personnel performing ICRs tend to dismiss the purpose of
management findings versus later inspection findings.
Frequently this is 'a result of time constraints.

This also implies that there may be a fundamental disagreement as to proper implementation of the act between OMB and the agencies affected by OMB Circular A-123. It may also be, assuming internal management control is considered the prerogative of each agency, that affected agencies, in general, believe the correction of their managerial discrepancies should remain totally within the perview of the expert in the functional area of operations. Trained personnel also take less time performing tasks than untrained.

When personnel know they will be evaluated on the duties and responsibilities involved in internal management controls, they will tend to place emphasis in that area. Personnel need to be made aware of the exact purpose of the ICR program. Based on the findings in Chapter IV, there is evidence that operational ICR monitors and Functional Area Managers do not fully understand reporting requirements.

An Unnecessary Program? Command emphasis is needed to assure commanders and Functional Area Managers that the ICR program is not only of value, but does not place a burden on already heavily taxed resources.

The lack of emphasis and interest in the ICR program can be seen in the results of Question 14 in Chapter IV.

Monitors see the results in a frequent lack of in-depth research into a functional area and cutting corners on time expended in performing ICRs. They stated that to prevent inadequate or late reports they had to call Functional Area Managers to rewrite or even redo an ICR from scratch.

Cost/Benefit Ratio. That some learning has occurred over the past fiscal years is evident in the statistics (reference Questions 2, 3, and 4). Many managers are still concerned about the input of resources into a questionable program.

Recommendations

Training, education, and the guidance need simplification. Perhaps a study performed by the Human Resources Laboratory or Air Force Institute of Technology personnel could discover the exact training requirements. They could devise a package clarifying the need for and requirements of the program for managers at all levels.

Recommend research into the legality of combining the ICR and self-inspection programs. If it is legal, should the two be integrated to conserve resources?

Recommend a cost/benefit analysis be completed, to include the functional areas as well as the ICR monitors, to validate the program objectives.

If one clear piece of information has emerged from this study, it is that the lack of an up-to-date and

clearly written regulation has caused confusion,

inaccurate, and inadequate reviews. Certainly a new

regulation should be available in time for future reviews.

ON THE SEA THERE IS A TRADITION OLDER

EVEN THAN THE TRADITIONS OF THE COUNTRY

ITSELF, IT IS THE TRADITION THAT WITH

RESPONSIBILITY GOES AUTHORITY AND WITH

THEM BOTH GOES ACCOUNTABILITY.

Reprinted from Kincaid, March 1981 (57:20).

Appendix A: <u>Glossary</u>

<u>Internal Controls</u>. The plan of organization and all of the methods and measures adopted within the Department of Defense to safeguard its resources, assure the accuracy and reliability of information, assure adherence to applicable laws, regulations and policies, and promote operational economy and efficiency.

<u>Internal Control Documentation</u>. Written policies, organization charts, procedural write ups, manuals, memoranda, flow charts, decision tables, completed questionnaires, software, and related written materials used to describe the internal control methods and measures, to communicate responsibilities and authorities for operating such methods and measures, and to serve as a reference for persons reviewing the internal controls and their functioning.

<u>Internal Control Review</u>. A detailed examination of an agency's or agency component's system of internal control to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost effective manner.

<u>Internal Control System</u>. The totality of the methods and measures of internal control established by DOD components individually or collectively.

<u>Vulnerability Assessment</u>. A review of the susceptibility of the Department of Defense or a DOD program to loss or unauthorized use of resources, errors in reports and information, illegal or unethical acts, and adverse or unfavorable public opinion. Vulnerability assessments do not identify weaknesses or result in improvements. They are the mechanism with which a component can determine <u>quickly</u> the potential for losses in its different programs or functions. The schedule of internal control reviews should be based on the results of the vulnerability assessments.

All definitions are extracted from AFR 170-22, Attachment 2, page 11.

Appendix B: Objectives and Standards for ICRs

A. Objectives of Internal Control

1. The objectives of internal control are to provide
    DOD management with reasonable assurance that:

    a. Financial and other resources are safeguarded
        from unauthorized use or disposition.

    b. Financial and statistical records and reports
        are reliable and accurate.

    c. Transactions are executed in accordance with
        authorizations.

    d. Applicable laws, regulations, and policies are
        adhered to.

    e. Resources are efficiently and effectively
        managed.

2. The objectives of internal control can be achieved
    by:

    a. Permitting access to resources only in
        accordance with management's authorization.

    b. Executing transactions in accordance with
        management's general or specific authorization.

    c. Recording transactions to permit preparation of
        accurate and reliable financial and statistical
        records.

    d. Comparing recorded accountability for resources
        with existing resources at reasonable intervals.

B. Standards

1. Documentation. Internal controls, accountability
    for resources and all financial transactions shall
    be clearly documented and documentation shall be
    available.

2. Recording of Transactions. Transactions shall be
    recorded as executed, when executed, and be
    properly classified.

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3. <u>Execution of Transactions</u>. Independent evidence shall be maintained that authorizations are issued by persons acting within the scope of their authority and that transactions conform with the terms of the authorizations.

4. <u>Separation of Duties</u>. Key duties such as authorizing, approving, recording transactions, issuing or receiving assets, making payments, and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss to the government. Internal Control depends largely on the elimination of opportunities to conceal errors or irregularities. This, in turn, depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction, thereby creating a situation that permits errors or irregularities to go undetected.

5. <u>Supervision</u>. Qualified and continuous supervision shall be provided to assure that approved procedures are followed. Lines of personal responsibility and accountability shall be clear.

6. <u>Access to Resources</u>. Access to resources shall be limited to authorized personnel. Access includes both direct physical access and indirect access through the preparation of processing of documents that authorize the use or disposition of resources. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

7. <u>Competent Personnel</u>. Reasonable care shall be taken that key personnel have high standards of integrity and are competent, by education, training, or experience, to accomplish their assigned duties.

8. <u>Reasonable Assurance</u>. Internal control systems shall provide reasonable, but not absolute, assurance that the objectives of the system will be accomplished. This standard recognizes that the cost of internal controls should not exceed the benefits derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives.

APPENDIX C: <u>AUDITING STANDARDS AND PROCEDURES: 1972</u>

General Standards

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:

   a) An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.

   b) A review of efficiency and economy in the use of resources.

   c) A review to determine whether desired results are effectively achieved.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.

3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.

4. Due professional care is to be used in conducting the audit and in preparing related reports.

Examination and Evaluation Standards

1. Work is to be adequately planned.

2. Assistants are to be properly supervised.

3. A review is to be made of compliance with legal and regulatory requirements.

4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.

5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions and recommendations.

Reporting Standards

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

2. Reports are to be issued on or before the dates specified by law, regulation or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.

3. Each report shall:

   a) Be as concise as possible, but, at the same time, clear and complete enough to be understood by the users.

   b) Present factual matter accurately, completely and fairly.

   c) Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.

   d) Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.

   e) Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes

of problems reported should be included to assist in implementing or devising corrective actions.

f) Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.

g) Identify and explain issues and questions needing further study and consideration by the auditor or others.

h) Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.

i) Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.

j) Clearly explain the scope and objective of the audit.

k) State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.

4. Each audit report containing financial reports shall:

a) Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with any other accounting principles applicable to the organization, program, function or

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activity audited), applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefore should be stated in the audit report.

b) Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of non-compliance, and material changes in accounting policies and procedures, along with their effect on the financial reports, shall be explained in the audit report.

APPENDIX D: <u>STRUCTURED INTERVIEW FORMAT</u>

Please take about 20 minutes to complete the following questions. All questions relate to your knowledge as the Internal Control Review (ICR) Monitor at your base. Answers will be used to make recommendations to the Air Force for improvements in the ICR program. Please feel free to comment on any question. The source of the answers will remain confidential.

PLEASE CIRCLE THE NUMBER BELOW THE ANSWER YOU CHOOSE

1. What has been the general reaction of the personnel designated to conduct ICRs?

GOOD PROGRAM	FAIR PROGRAM	UNNECESSARY PROGRAM	UNKNOWN REACTION	OTHER (SPECIFY)____
1	2	3	4	_____

2. How many hours per year has your office spent, on the average, training, monitoring, correcting, completing designated administrative duties, etc., during each FY? If data unavailable, please provide an approximate answer.

FY83 _____   FY84 _____   FY85 _____   FY86 _____

3. How many ICRs have been completed by your office during each Fiscal Year since the ICR program began?

FY83 _____   FY84 _____   FY85 _____   FY86 _____

4. How many of the above ICRs were completed by the originally scheduled date?

FY83 _____   FY84 _____   FY85 _____   FY86 _____

5. Do the Functional Area Managers (FAMs) at your installation feel that Internal Control Reviews (ICRs) are their responsibility?

YES	NO	DON'T KNOW
1	2	3

6. Do any of the Functional Area Managers at your installation have a formal plan (e.g. an OI, squadron regulation or written procedures) for completing ICRs?

YES   NO   DON'T KNOW
1   2   3

7. Does your office have a formal plan (excluding head-quarters, MAJCOM and AF directives) for completing ICRs?

YES   NO   DON'T KNOW
1   2   3

8. Does your office have a formal follow-up program for weaknesses identified?

YES   NO   DON'T KNOW
1   2   3

9. Are there sufficient personnel assigned to your office to accomplish the intent of internal reviews, per AFR 170-22?

YES   NO   DON'T KNOW
1   2   3

10. Do Functional Area Managers working papers provide an adequate audit trail to pass Air Force Audit Agency (AFAA) inspections?

YES   NO   DON'T KNOW
1   2   3

11. Do Functional Area Managers have complete independence in order to make recommendations for improvements or corrections free from pressures from senior management?

YES   NO   DON'T KNOW
1   2   3

12. Do you believe Cost and Management Analysis (ACC) is the appropriate base-level monitor for ICRs?

YES   NO   DON'T KNOW
1   2   3

13. Do you think "crossfeed" items from other bases and commands ICRs could be beneficial (maybe using anonymous sources for protection)?

YES   NO   DON'T KNOW
1   2   3

.14. Do you believe that internal control reviews are being properly completed at your base with no "pencil whipping"?

YES   NO   DON'T KNOW
1   2   3

15. Are internal control reviews directed toward appropriate projects rather than clerical tasks?

YES   NO   DON'T KNOW
1   2   3

16. Are internal control review findings and recommendations reported to the commander properly, per AFR 170-22?

YES   NO   DON'T KNOW
1   2   3

17. Does the Internal Control Review Program enjoy the support and acceptance of the commander?

YES   NO   DON'T KNOW
1   2   3

18. Does your commander become involved in correction of material weaknesses or deficiencies?

YES   NO   DON'T KNOW
1   2   3

19. Do you think that ICRs could be incorporated with another currently existing program?

YES   NO   DON'T KNOW
1   2   3

If yes, please answer 19a,b,c, and d.
If no or don't know, please go to question #20.

a. With which program would you incorporate ICRs.? (Air Force Audit Agency, self-inspection, etc.)

_____

b. What advantage do you foresee from incorporating these programs?

_____

c. Do you think that this incorporation will make more manhours available for other ACC duties?

YES   NO   DON'T KNOW
 1   2   3

d. If yes, how many manhours each ICR cycle?

0-15   16-30   31-45   46-60   61 or more
 1   2   3   4   5

20. How many months have you been the ICR Monitor?

0-6   7-12   13-18   19-24   25-36   since the program
 1   2   3   4   5   6   began (FY83)

21. To what degree do your Functional Area Managers believe ICRs help in controlling fraud, waste, and abuse of government resources?

VERY MUCH   SOMEWHAT   A LITTLE   NOT AT ALL   OTHER (SPECIFY)
    1   2   3   4   _____

22. To what degree do you believe ICRs provide insight to the commander for resource control and management?

VERY MUCH   SOMEWHAT   A LITTLE   NOT AT ALL   OTHER (SPECIFY)
    1   2   3   4   _____

23. To what degree do you feel that internal controls are a necessary management tool?

VERY MUCH   SOMEWHAT   A LITTLE   NOT AT ALL
    1   2   3   4

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24. To what degree do you agree with the statement
that ICRs are "just another self-inspection"?

VERY MUCH	SOMEWHAT	A LITTLE	NOT AT ALL
1	2	3	4

25. Do you believe including internal management
control responsibilities in performance reports would
gain management support for the program?

VERY MUCH	SOMEWHAT	A LITTLE	NOT AT ALL
1	2	3	4

26. Do you feel that ICRs should be performed by a
separate office reporting directly to the Comptroller
in order to provide the independence required in
internal audits rather than the functional managers?

VERY MUCH	SOMEWHAT	A LITTLE	NOT AT ALL
1	2	3	4

27. Do Functional Area Managers request your assistance
in completing ICRs?

FREQUENTLY	SOMETIMES	RARELY	NOT AT ALL
1	2	3	4

28. Do Functional Area Managers request your assistance
in gaining the commander's support for the ICR program?

FREQUENTLY	SOMETIMES	RARELY	NOT AT ALL
1	2	3	4

29. Do they request training in ICR procedures from
your office?

FREQUENTLY	SOMETIMES	RARELY	NOT AT ALL
1	2	3	4

30. Do personnel in your office act as consultants for
ICRs to other functional areas?

FREQUENTLY	SOMETIMES	RARELY	NOT AT ALL
1	2	3	4

31. When an ICR is completed, do you meet with the Functional Area Manager performing the ICR and discuss the findings and recommendations before forwarding the report to your headquarters?

FREQUENTLY   SOMETIMES   RARELY   NOT AT ALL
    1   2   3   4

32. Do you periodically spot-check working papers of functional area managers for compliance with AFAA guidelines?

FREQUENTLY   SOMETIMES   RARELY   NOT AT ALL
    1   2   3   4

33. To what degree do you feel you received guidance and training to perform duties as the ICR point-of-contact and trainer for your installation?

EXTENSIVE   ADEQUATE   MINIMUM   NO   OTHER (SPECIFY)
TRAINING   TRAINING   TRAINING   TRAINING   _____
    1   2   3   4   _____

34. From the following list, circle the number corresponding to the area/s in which you could most benefit from additional training:

    1. Auditing procedures and standards
    2. Accounting systems review
    3. Automatic Data Processing controls
    4. Knowledge of applicable laws, AF and command
        regulations/policies
    5. Resource management
    6. Identifying Air Force program objectives
    7. Necessity for the internal control program
    0. No training required

35. If you were given free rein, would you alter the ICR program?

YES   NO   NO OPINION
 1   2   3

If yes, in what way(s)?

_____

_____

_____

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36. What is your Major Air Command or Separate Operating Agency?

MAC   TAC   SAC   ATC   AFLC   EIS   SP CMD   AU   OTHER (SPECIFY)
_____

37. What is your grade/rank?

a. CIVILIAN
GS-03   GS-05   GS-06   GS-07   GS-09   GS-10   GS-11   OTHER
1   2   3   4   5   6   7   SPECIFY:_____

b. MILITARY
E1-E4   E5-E6   E7-E8   E-9   01-02   03   04-05   OTHER
1   2   3   4   5   6   7   SPECIFY:_____

38. What is the population (military and civilian) of the installation you serve? Circle the number corresponding to your answer.

    1. 0-2,000
    2. 2,001-4,000
    3. 4,001-6,000
    4. 6,001-8,000
    5. 8,001-10,000
    6. 10,000-12,000
    7. OVER 12,000 (SPECIFY approximate population) ____

39. In your view, what is the most serious impediment to proper completion of Internal Control Reviews?

_____

_____

YES   NO   Do you wish to receive copies of a summary of the
           results of this survey?

           Please indicate below the address to which the
           summarized results should be mailed:

           _____

           _____

           _____

           _____

If you have any questions or would like to discuss the
survey subject or its contents, please call me, Captain
Donna Fry, at Autovon 785-4437 (AFIT/LSG).

Thank you for your assistance.

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This investigation reviewed the effectiveness of the Internal Control Review (ICR) program. The review consisted of two parts. First, a literature review revealed strong feelings among field personnel that the ICR program needs modification. Second, a pilot interview was administered to 31 Cost Analysis practitioners. At least one representative was selected from each major air command, one Separate Operating Agency (SOA), and two recent overseas returnees. Participants were polled about their opinions, about strengths or weaknesses within the program, and about specific suggestions for improvement.

Statistical analyses were completed using results from the Statistical Package for Social Sciences (SPSS) programs. Analysis of results indicated that the ICR program is misunderstood. Program guidance and year-end certification require simplification. Greater emphasis should be placed on invoking and refining current internal management controls. The most frequently suggested method was merging the Air Force self-inspection program with the ICR program. Recommendations included increased training to forstall misunderstanding, streamlining guidance, strengthening the self-inspection program, and a cost/benefit analysis of the ICR program.

END

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