



DEPARTMENT OF DEFENSE

AUDIT REPORT

INTERNAL REVIEW ACTIVITY AT THE
DEFENSE LOGISTICS AGENCY

No. 91-013

November 23, 1990

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DEPARTMENT OF DEFENSE
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Report
No. 91-013

November 23, 1990

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Final Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency

This is our final report on the Audit of the Internal Review Activity at the Defense Logistics Agency, provided for your information and use. The audit was made from February through August 1989. The objectives of the audit were to determine whether the Internal Review Activity (the Activity) at the Defense Logistics Agency (DLA) complied with DoD internal auditing standards and policies and was operating in an economical, efficient, and effective manner. We also examined DLA's internal management control program for determining the efficiency and effectiveness of the Activity. The Activity oversees DLA's operation and maintenance appropriation of \$2 billion annually, contract payments of \$50 billion annually, disposal of \$5 billion annually in Government property, and procurement of 2.5 million supply items valued at \$10 billion annually.

The results of our audit showed that the Activity's quality assurance program needed improvements to ensure that local and centrally controlled audits follow Government auditing standards for audit planning, executing, and reporting. Also, the Activity verification program needed to conform to Office of Management and Budget standards to assure that internal and external audit recommendations have been implemented and identified material weaknesses are addressed in the Activity's Annual Statements of Assurance. The results of the audit are summarized in the following paragraphs, and the details and audit recommendations are discussed in Part II of this report.

The Activity did not follow Government auditing standards for audit planning, executing, and reporting; also, the Activity's independence was impaired. As a result, the Activity did not contribute significantly to DLA's internal control system. The Activity's audits had few findings, audits showed negligible monetary benefits, and recommendations were not made or were dropped without justification. We recommended that the Headquarters Internal Review Activity be made a staff element of the Director's office, that quality assurance reviews be

performed in accordance with audit standards, and that audit supervisors and managers receive detailed training on audit standards (page 9).

We found that DLA did not implement corrective actions recommended by internal or external audits, did not notify the follow-up focal point when actions were closed out, and did not adequately verify that actions were taken on deficiencies noted in external audits. As a result, DLA could not provide reasonable assurance that internal controls were functioning as required by the Federal Managers' Financial Integrity Act of 1982, and that deficiencies addressed in prior General Accounting Office (GAO) and Inspector General (IG), DoD reports were corrected. We recommended that the Director, DLA revise DLA Regulation 7600.11 and DLA Manual 7000.7 to clarify how DLA will use the Internal Review Activity to ensure compliance with the requirement in DoD Directive 7650.3 for verification of corrective actions (page 23).

In addition, we identified two potential violations of the DoD standards of conduct that may have involved fraud. In one case, the commanding officer took immediate action, and the other case was referred to the local office of the Defense Criminal Investigative Service. We did not address these cases in our report because of the pending investigation and potential litigation. Both cases involved impairment of the DLA auditors' ability to perform their functions.

During the audit, we identified internal control deficiencies as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The Activity's independence was impaired, affecting its ability to form objective conclusions and evaluate internal controls. Also, DLA did not verify that corrective actions were taken on prior reports and that internal control weaknesses were reported in the Annual Statements of Assurance. The recommendation in Finding B., if implemented, will correct the deficiency. Therefore, the officials responsible for internal controls within the Office of the Secretary of Defense and the DLA will be provided a copy of this final report. We could not determine the monetary benefits to be realized by implementing recommendations in this report. Monetary benefits were not readily identifiable because it was not possible to estimate monetary benefits associated with a more effective and efficient Internal Review Activity and audit follow-up function (see Appendix G).

A draft of this report was provided to the Director, DLA on June 5, 1990. We received management comments from the Director on September 11, 1990. These comments were considered in preparation of this final report and are discussed in Part II. The complete text of management comments is in Appendix E.

The Director, DLA stated that a panel of senior DLA management officials is being established to review the entire Internal Review process. The panel will evaluate, among other things, the role of DLA Internal Review as it relates to the IG, DoD. The panel is to report its findings to the Director, DLA by April 1, 1991. We are holding Recommendations A.1., A.2., A.3., A.4., A.5., A.6., and A.7. in suspense pending the results of the panel. As a result, additional comments on these recommendations are not requested at this time.

Recommendations B.1.a., B.1.b., B.1.c., and B.2., in Finding B. of the draft report, have been dropped and two revised recommendations are made. We recommend that the Director, DLA require the management panel to recommend revisions to DLA Regulation 7600.11 and DLA Manual 7000.7 that will clarify how DLA will use the Internal Review Activity to comply with the requirements of DoD Directive 7650.3. We further recommend that the Director, DLA require that the management panel include cognizant representatives of the IG, DoD, to ensure a mutually satisfactory outcome. This change in the recommendations in Finding B. is in response to the Director's proposal to establish a panel of senior DLA management officials to review the internal review process.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Accordingly, final comments on the unresolved issues should be provided within 60 days. Therefore, we request that the Director, DLA provide final comments on Recommendations A.1., B.1. and B.2. within 60 days of this report.

Copies of this final report will be distributed to the non-DoD activities shown in Appendix J. The courtesies extended to the audit staff (listed in Appendix I) are appreciated. If there are any further questions concerning this audit, you may call Mr. James McGuire or Mr. Jack Armstrong at (804) 766-9108.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

cc:

Under Secretary of Defense (Acquisition)
Assistant Secretary of Defense (Production and Logistics)
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF THE INTERNAL REVIEW ACTIVITY
AT THE DEFENSE LOGISTICS AGENCY

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Prepared by:
Financial Management Directorate
Project No. 9FC-0027

FINAL REPORT ON THE AUDIT OF THE INTERNAL REVIEW ACTIVITY
AT THE DEFENSE LOGISTICS AGENCY

PART I - INTRODUCTION

Background

The Defense Logistics Agency (DLA) supports the Military Departments and other agencies by providing supplies and technical and logistics services. In addition to DLA Headquarters, there are 25 Primary Level Field Activities (field activities), which consist of 6 supply centers, 4 depots, 6 service centers, and 9 contract administration service regions (now districts). These activities procure, stock, and issue materiel to support military forces; administer and make payments on Government contracts; and provide worldwide support services, including property reuse and disposal, cataloging of supply items, and management of defense industrial property. DLA's operation and maintenance appropriation in Fiscal Year (FY) 1988 was \$2 billion. During FY 1988, the DLA managed 2.5 million supply items; disbursed \$50.9 billion in contract payments; arranged disposal or reuse of Government property valued at \$5.3 billion; and procured fuels, clothing, food, and medical, electronic, and other consumable supplies valued at \$10.3 billion.

DLA lost its internal audit capability in 1976 when its Auditor General was assigned to the Defense Audit Service. As a result, 68 special analysis positions were established at 21 DLA field activities to review areas not covered by external audit organizations. In March 1982, 25 Internal Review field offices and a Headquarters element were established, and the special analysis positions were converted to audit positions. As of March 31, 1988, the Internal Review Activity (the Activity) had 117 auditors at DLA Headquarters and its 25 field activities. In addition, 28 personnel perform administrative tasks and follow up on external audit reports. In FY 1988, DLA spent \$5.5 million on the Activity's functions.

The Internal Review Activity at DLA Headquarters (the Headquarters Activity) establishes DLA-wide internal audit policy; collects data from the field activities for reports prepared for the Inspector General (IG), DoD; conducts centrally controlled audits; performs audit quality assurance reviews; and assists the Assistant Inspector General for Audit Followup (AIG (AFU)), DoD on external audit reports. The Headquarters Activity reports to the DLA Comptroller. The Internal Review offices at the field activities are responsible for planning, executing, and reporting audits. The Internal Review field offices conduct local audits and centrally controlled audits

requested by the Headquarters Activity at their respective field activities. Each Internal Review office reports to a field activity commander, who is responsible for approving the annual audit plans and assuring that the Internal Review offices have adequate resources. The auditors for the Activity spent 18,000 staff days per year on direct audit time and issued an average of 278 reports per year for the 3-year period ending March 31, 1989. The Headquarters Activity and the Internal Review offices at field activities are responsible for establishing a comprehensive quality assurance program to ensure that audit standards are followed.

The Activity performs two types of audits, single-location and centrally controlled audits. Single-location audits are performed at the field activity by the Internal Review office at that location. Reports are issued and recommendations are made to the field activity. Centrally controlled audits are DLA-wide reviews initiated by Headquarters Activity. Headquarters Activity conducts the preliminary research and audit surveys and prepares audit guides. Internal Review offices at the field activities perform detailed audit field work in the same manner as the single-location audits. After field audits are completed, reports are sent to Headquarters Activity for consolidation into a summary report, and recommendations are made to the appropriate management level.

A division of the Headquarters Activity assists the AIG (AFU) in following up on General Accounting Office (GAO) and IG, DoD audit reports. The Headquarters Activity serves as the audit focal point for the GAO and the IG, DoD. It also consolidates DLA responses to audit reports and negotiates internal DLA disagreements. During the period beginning in FY 1987 and ending on March 31, 1989, Headquarters Activity analyzed and reported corrective actions as completed on 137 recommendations in 57 audit reports.

Follow-up focal points at each field activity coordinate the activity's responses to audit reports and monitor corrective actions taken by the activity. Follow-up focal points also conduct the Internal Management Control Program, which includes the reporting of internal control weaknesses identified in Annual Statements of Assurance. The Activity is responsible for verifying that corrective actions have been taken on deficiencies noted in external and internal audit reports and Annual Statements of Assurance.

Objectives and Scope

The audit objectives were to determine whether the Activity at DLA complied with DoD internal auditing standards and policies

and was operating in an economical, efficient, and effective manner. We also examined DLA's internal management control program for determining the efficiency and effectiveness of the Activity. The audit also evaluated the effectiveness of applicable internal controls, as discussed in the "Internal Controls" section.

We reviewed the Activity's organization at the Headquarters Activity and 16 of the 25 Internal Review field offices. We examined audit reports and working papers for 53 of the 511 audits conducted between October 1, 1986, and March 31, 1989, by the 16 Internal Review field offices and 6 of the 17 centrally controlled audits performed by the Headquarters Activity. We also examined staffing requirements for the Activity and analyzed the annual audit plans for the period beginning in FY 1986 and ending on March 31, 1989. We reviewed the Activity's verification actions on 32 reports containing 106 recommendations made by GAO; the IG, DoD; and the Activity. DLA reported that actions were completed on these recommendations during the period beginning in FY 1986 and ending on March 31, 1989. We reviewed the "Status of Management Action on Other Reports," submitted by DLA to the AIG (AFU) through March 30, 1990. We also reviewed DLA's internal management control program as it pertained to internal control deficiencies identified by external and internal audits.

The audit was conducted in accordance with the "Department of Defense Guide for External Quality Assurance Reviews of Internal Audit Organizations," and was made from February through August 1989. We reviewed audit reports, working papers, audit plans, and supporting documents on audit follow-up actions and the Activity's Annual Statements of Assurance. During the audit, we visited 19 activities and contacted an additional 9 activities.

This economy and efficiency audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. A list of the activities visited or contacted is at Appendix G.

Internal Controls

We reviewed the Activity as an internal control function. We also reviewed DLA's internal management program in regard to internal control deficiencies identified by external and internal audits. We evaluated the Activity's effectiveness in identifying and reporting internal control deficiencies and verifying that internal control weaknesses addressed in prior audit reports and DLA's Annual Statements of Assurance had been corrected as

reported. The Activity is responsible for ensuring that management controls are in place and functioning as intended so that DoD resources are used efficiently, effectively, and economically. If internal controls are not in place or are inadequate, the Activity is responsible for reporting these deficiencies. Material internal control deficiencies should be corrected as part of DLA's internal management program.

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Audit work and reporting did not meet the standards specified in DoD Manual 7600.7-M, "Internal Audit Manual." We found that the Activity needed to improve its evaluation and reporting of internal control deficiencies. Management reported that corrective actions had been taken on prior audit reports and material internal control weaknesses, but DLA did not have an effective mechanism to verify completion and effectiveness of the actions. The details of these conditions are discussed in Findings A. and B. in Part II of this report. A copy of the final report will be provided to the senior officials responsible for internal controls within DoD and DLA.

Prior Audit Coverage

The AIG (AFU), DoD, issued a report, "Evaluation of Audit Follow-up Systems and Procedures at the Defense Logistics Agency," on February 4, 1985. DLA records showed that corrective action had been taken on the audit findings; however, DLA did not verify management's corrective actions, and many of them had not been taken. The DLA follow-up system did not detect and resolve deficiencies or implement corrective actions quickly enough. DLA did not assure the accuracy of information reported to the AIG (AFU). The system was ineffective because there were no procedures to monitor progress and no requirement to identify known delays prior to estimated completion dates. When problems were discovered, they were treated in a routine manner and received little management attention. The report recommended that DLA develop a plan to monitor performance and include a timetable for completion of actions, establish a monitoring system for monetary benefits, and verify the status of corrective actions. DLA agreed with the recommendations. We found in the current audit that DLA had established a monitoring system, but that managers avoided verifying stated corrective actions and sometimes provided inaccurate information to the follow-up system on the status of corrective actions. Additional details of this repeat condition are discussed in Finding B., "Verification of Corrective Actions".

The GAO issued Report No. NSIAD-86-64, "Progress and Challenges of the Defense Logistics Agency," OSD Case No. 6882, on April 7, 1986. GAO recommended in its draft report that the Activity report to the Director, DLA. Before GAO issued its final report, the IG, DoD revised DoD Directive 7600.2. This revision required internal review organizations to report to directors, deputy directors, or commanders of Defense agencies or Military Departments. In its comments to GAO's draft report, DoD agreed to implement GAO's recommendation. Based on those comments, GAO dropped the recommendation in its final report. The report also noted that DLA was not performing follow-up audits as required by DoD Directive 7650.3 to ensure correction of deficiencies. In response, the DLA Director made Internal Review staffs responsible for verifying DLA actions on audit recommendations. We found that DLA had not assigned the Headquarters Activity to the Director or the Deputy Director. Details of this condition are discussed in Finding A., "Internal Review Organization." In addition, we found that DLA did not have an effective program for verifying corrective actions. See Finding B., "Verification of Corrective Actions," for more details.

The Assistant Inspector General for Audit Policy and Oversight (AIG (APO)) issued Report No. 87-007, "Report on Oversight Survey of Internal Review Activities," on April 27, 1987. The AIG (APO) obtained information on the organizational placement of internal review staffs, planning, surveillance, and oversight of internal review functions, availability of training, and types of reviews performed. Due to the limited nature of the review, AIG (APO) did not draw conclusions about conformance with auditing standards because audit performance was not examined. In this report, concerns were expressed with the placement of internal review organizations under commanders or deputy commanders, dissemination of instructions to implement DoD audit policies, effective quality assurance programs, and more effective coordination of training programs. Only one recommendation was specifically addressed to DLA. It was recommended that DLA and AIG (AUD) jointly develop a training program. DLA's response stated that the recommendations should be redirected to require the AIG (AUD) to develop a training program. The AIG (AUD) concurred with AIG (APO), stating that DLA internal review used the same source of training as AIG (AUD) and that a compendium of training courses was available. During our audit of DLA's Internal Review Activity, we found that the Headquarters Activity was not placed under the Director or Deputy Director, DLA's quality assurance program was ineffective, and DLA audit supervisors needed additional training on DoD audit policies and standards. Finding A. of this report provides additional details.

On January 12, 1988, the Office of the Assistant Inspector General for Auditing, DoD, issued Audit Report No. 88-070, "Internal Review Organizational Profile." The audit developed an organizational profile for the Activity. The profile could be used to plan further quality assurance reviews prescribed by DoD Directive 7600.2. The report noted that using review to improve planning of audit work loads could enhance production levels and increase the percentage of direct audit time. No recommendations were made in the report.

The GAO issued Report No. NSIAD-88-107, "Followup on the Management Review of the Defense Logistics Agency," OSD Case No. 7457, in March 1988. GAO recommended that the Director, DLA increase the coverage of the planned automated data system for compiling audit findings to include findings from other in-house review and evaluation groups, and issue procedures to ensure that actions taken on audit recommendations are verified. DLA agreed with the recommendations, stating that Defense Logistics Agency Manual 7000.7, "Internal Review Audit Manual," was revised to include procedures for physical verification of follow-up actions. Nevertheless, we found that the Activity's physical verification was inadequate. See Finding B., "Verification of Corrective Actions," for additional details.

In December 1988, GAO issued Audit Report No. AFMD-89-8, "Audit Resolution: DoD's Policy Can Be Strengthened," OSD Case No. 7871. GAO found that DoD Directive 7650.3 generally contained sound policy requirements for correcting the problems found by auditors, but recommended including more detailed requirements. The GAO recommended specifically that audit organizations be required to review and comment on whether planned actions discussed in management responses to audit reports appear to correct reported deficiencies and whether scheduled implementation dates are reasonable. Further, follow-up personnel should periodically determine the status of corrective actions and report significant delays in implementing audit recommendations to the Secretaries of the Services or other top officials. DoD concurred with the report's recommendations. We found, however, that because it did not have an effective verification program, DLA had continued to report that actions had been completed on audit report recommendations without sufficient justification. Finding B., "Verification of Corrective Actions," contains additional details on this repeat finding.

On April 5, 1989, GAO issued Audit Report No. AFMD-89-49FS, "Extent of Operations, Types of Work Performed, and Benefits Derived," OSD Case No. 7986. The report identified the extent of the Activity's operations in DoD, the types of work performed by

Internal Review Activity personnel, and the benefits derived from their work. No findings were presented, and no recommendations were made.

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PART II - FINDINGS AND RECOMMENDATIONS

A. Internal Review Organization

FINDING

The Internal Review Activity (the Activity) at the Defense Logistics Agency (DLA) did not follow the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," 1988 revision ("Government Auditing Standards") for audit planning, work papers, and reporting. This condition was caused by an ineffective quality assurance program: specifically, inadequate supervisory reviews and internal quality assurance reviews of audit planning, performance, and reporting. Also, the Activity's independence was impaired because DLA commands restricted Internal Review resources and affected the conclusions of auditors. The Activity at DLA Headquarters (Headquarters Activity) did not report to the Director or Deputy Director as required by DoD Directive 7600.2, "Audit Policies." In general, the Activity did not function efficiently or effectively and did not contribute significantly to DLA's internal control system. Audits identified few monetary benefits, and for some audits, reports, findings, and recommendations were not prepared or were dropped without adequate justification.

DISCUSSION OF DETAILS

Background. Four publications prescribe policies, procedures, and standards for all DoD internal audit organizations. Office of Management and Budget (OMB) Circular A-73, "Auditing Federal Operations and Programs," gives audit policies and responsibilities for all agencies in the executive branch of the Federal Government. This OMB Circular states that agencies are responsible for adequate audit coverage of their programs to determine that funds have been expended in a manner consistent with related laws, regulations, and policies; that resources have been managed economically and efficiently; and that desired program results have been achieved. The Circular also requires that the "Government Auditing Standards" issued by the Comptroller General of the United States, 1988 revision, be followed. The "Government Auditing Standards" specify the standards that all audit organizations are to follow for audits of Government organizations, programs, and Government funds received by contractors and nonprofit organizations. The standards also require internal audit organizations and auditors to be free from personal, external, and organizational impairments to their independence in attitude and appearance.

DoD Directive 7600.2, "Audit Policies," implements OMB Circular A-73 for the Department of Defense. The Directive also authorizes the Defense Logistics Agency (DLA) to establish an Internal Review organization to supplement the Office of the Assistant Inspector General for Auditing, DoD, and provides that the head of the Internal Review organization shall report to the head or deputy head of a command or activity. Furthermore, Internal Review activities are required to follow auditing standards in the "Government Auditing Standards" and in DoD 7600.7-M, "Internal Audit Manual."

The purpose of DoD 7600.7-M is to establish uniform policies and procedures and to help DoD auditors and internal audit organizations comply with standards, policies, and procedures set by the Congress, the Comptroller General of the United States, the Office of Management and Budget, the President's Council on Integrity and Efficiency, and the Department of Defense. DoD 7600.7-M contains 6 general and 37 specific audit standards and encourages the effective use of DoD audit resources. These standards address the planning, execution, reporting, and quality assurance of audits, as well as the management and independence of audit organizations.

A sound planning system is essential for the effective management, allocation, and control of audit resources. If audits are performed with little benefit or return, the performance of excellent audit work is of little value. The Internal Review activity should justify why certain areas are selected for audit. DoD 7600.7-M provides the standards and policies for Internal Review activities to develop audit plans. Plans should include goals, objectives, written operating plans and budgets, criteria, prior audit coverage, reasons for selection, activities and locations to be considered for audit, estimated auditor days, milestone dates, benefits to be obtained, and background information. Priorities should be assigned to potential audits based on potential dollar magnitude, adequacy of internal controls, regulatory requirements, and availability of resources. DoD 7600.7-M recommends that audit organizations should achieve potential monetary benefits equal to or greater than 10 times the cost of operations.

Audits are conducted to help management solve problems and devise better ways to do business. The primary purpose of an audit report is to document audit results and recommend corrective actions. Managers use audit reports as part of the audit follow-up process to correct problems and to identify internal control weaknesses, and Congress uses them to evaluate budget requests. Audit working papers connect the field work and the audit report. They serve as the record of work performed and should

contain sufficient, competent, and relevant evidence to support the judgments, conclusions, findings, and recommendations in the audit report.

The purpose of a quality assurance program is to ensure that audit planning and work performed adhere to DoD auditing standards, policies, and procedures and are carried out economically, efficiently, and effectively. Each internal audit organization is required to have an effective quality assurance program. The Activity is required to have two elements of a quality assurance program. The first element is direct supervision of the audit process by audit supervisors. The second element is periodic internal quality control reviews performed by audit personnel from Headquarters Activity. DoD 7600.7 requires the Activity field offices to have an internal quality control review once every 3 years.

DLA Regulation 7000.13, "Internal Review," and DLA Manual (DLAM) 7000.7, "Internal Review Audit Manual," implement DoD Directive 7600.2 and DoD 7600.7-M. DLA Regulation 7000.13 requires the field activities to establish Activity field offices if the independence of the Internal Review function is not impaired, and if the Activity field office reports to the field activity commander and receives adequate resources. DLAM 7000.7 also gives procedures for audit planning and reporting and stresses the importance of evaluating internal controls.

Standards. We reviewed the work performed by 16 of the Activity field offices and at the Headquarters Activity. Our review analyzed audit planning for 511 audits conducted by the Activity field offices and 17 centrally controlled audits performed by more than one of the Activity field offices and the Headquarters Activity between October 1, 1986, and March 31, 1989. We reviewed working papers and reports for 53 of the 511 local audits and 6 of the 17 centrally controlled audits to determine if they met the "Government Auditing Standards." We found that the planning process was ineffective because critical planning elements, such as audit objectives and estimated audit costs and benefits, were not identified. Of the 53 local audits and the 6 centrally controlled audits reviewed, we identified deficiencies in the field work or working papers in 43 of the local audits and the 6 centrally controlled audits. In addition, the reporting standards for 39 of the local audits and 4 of the centrally controlled audits were not adequately met.

These deficiencies existed because DLA had an ineffective quality control program. Audit supervisors either had inadequate knowledge of the audit planning process or they did not adequately supervise audits. Quality assurance reviews performed by Headquarters Activity were not in accordance with the

standards, reviewers did not document or report known deficiencies, and reported deficiencies were never corrected. Audit independence was impaired because field activity commanders at times restricted audit resources and audit findings and reports often were not prepared. The independence of Headquarters Activity was also impaired because it reported to the DLA Comptroller instead of the Deputy Director or the Director, DLA, as required in DoD 7600.2. As a result, DLA did not provide management with adequate resources for audits, did not use its audit resources effectively, and did not always report, develop, or support findings.

Planning. The Activity did not prepare annual audit plans in accordance with DoD 7600.7-M. Annual audit plans were prepared for 15 of the 16 Activity field offices visited. However, these plans included only the estimated auditor days required to accomplish the audit, the period in which the audit was to be performed, the title of the audit, and the area to be reviewed. The Headquarters Activity audit plan consisted of a list of titles for which audits were to be performed. The plans did not discuss essential elements such as expected benefits, reasons for selection, criteria, and objectives of planned audits. Internal control weaknesses and expected monetary benefits were not considered in developing audit plans or selecting audits to include in the plan.

Auditors at the 15 Activity field offices told us that local commanders determined which audit projects were selected for the plan, except when the Headquarters Activity requested assistance in centrally controlled audits. The remaining Activity field office did not provide us with its annual audit plan. We believe that the plan was not prepared because the Activity field office was performing accounting functions and not performing audits. The Headquarters Activity did not routinely review the Activity field office plans for compliance with DoD audit standards because DLA procedures did not require review of field office plans.

During the period between October 1, 1985, and March 31, 1989, the 16 Activity field offices spent approximately 46,000 direct labor days on 511 audits. Of these 511 audits, 161 audits resulted in no findings, 296 audits identified findings but no monetary benefits, and 54 audits reported savings that totaled \$120 million, of which \$100.7 million (84 percent) was unliquidated obligations. According to DoD 7600.7-M, unliquidated obligations are not classified as savings. Only \$19.3 million (16 percent) of the reported savings were valid.

During FY 1987 and FY 1988, 35,900 labor days were charged to direct audit, of which 22 percent were charged to audits of DLA's

primary mission areas (contract administration, inventory management, and procurement). Fifty percent of the audit days were charged to functional areas such as support services, retail supply, comptroller, and nonappropriated fund activities. We found two Activity field offices that did not conduct any audits in primary mission areas and had assisted local comptrollers with accounting functions. Personnel at these two Activity field offices charged their time as direct audit in the comptroller area, although performing accounting work and reporting it as audit work is contrary to auditing standards.

Field Work Evidence. We found that the working papers for 43 of the 53 Activity field offices' audits and all 6 of the centrally controlled audits did not meet DoD standards. For 22 of the audits reviewed, working papers were not cross-referenced to audit programs, other working papers that supported the audit, summaries, or findings. In addition, working papers for 16 of the audits indicated that audit objectives were not met. We found insufficient evidence to support statements and findings in 16 of the 53 audits reviewed for Activity field offices. In 4 of the 16 audits, auditors could not locate the working papers. For the remaining 12 audits, the working papers did not support significant statements made in the report and were not prepared in accordance with DoD 7600.7-M. As a result, the validity of the findings and statements in these 16 reports could not be verified. Appendix A of this report contains a schedule of the Activity audits reviewed and deficiencies found.

The six centrally controlled audits we reviewed had similar deficiencies (see Appendix A, page 9 of 9). The working papers for one audit could not be located, while the working papers for a second audit had been placed in a box with no organization, cross-referencing, or identification. The working papers for the remaining four audits were not cross-referenced to the findings, audit programs, or to other summaries, and some working papers were missing for one audit. In addition, the purposes and sources of the working papers were not identified, and the scope of the reviews were not stated. Consequently, there was no assurance that sufficient, competent, and relevant evidence supported the auditors' judgments, conclusions, and audit reports.

Reporting. For 39 of the 53 audits for the Activity field offices and all 6 of the reports for centrally controlled audits, reports either were not prepared or did not meet the standards in DoD 7600.7-M. Appendix B lists the audits reviewed and reporting deficiencies found.

We also found that 16 of the 53 audits for the Activity field offices did not report potential findings. Audit reports were not prepared for 8 of the 16 audits, although the working papers contained potential findings. For 8 of the remaining audits, reports were prepared but failed to include 19 potential findings. These unreported findings included internal control deficiencies and other conditions material to the audit objectives. Appendix C lists the audits with unreported potential findings.

Of the six centrally controlled audits, two did not result in consolidated reports, and the Headquarters Activity omitted pertinent information from two other reports. The managing auditors informed us that consolidated reports were not issued on the two audits because the reports from the Activity field offices did not contain systemic problems. We reviewed the reports from the Activity field offices and found that the reports identified common problems and discrepancies in DLA procedures and that consolidated reports should have been prepared on the two audits.

Quality Assurance Program. These deficiencies in audit planning, field work, and reporting resulted partly from an ineffective audit quality assurance program. We found that audit managers did not adequately perform supervisory reviews and the Headquarters Activity's internal quality control reviews were not performed in accordance with audit standards. This resulted partially from inadequate training of audit supervisors and inadequate guidance in DLAM 7000.7.

Supervisory Reviews. The head of an audit organization is responsible for the quality assurance of audits. Supervisors should be involved with every phase of the audit, from planning to issuing the report. In 20 of the 53 audits of the Activity field offices and all of the 6 centrally controlled audits reviewed, we found no evidence of supervisory reviews (see Appendix A). Working papers contained no dates and initials of supervisors or audit review sheets to indicate that supervisors had monitored audit progress. At one of the Activity field offices, we reviewed two audits, "Review of Unliquidated Obligations" and "Review of Repacking Costs." One of the audits had five potential findings that were not reported, and the other had eight potential findings that

were not reported. Neither of the two audits had a supervisory review, and the supervisor said he was not aware of potential findings documented in the working papers.

Our review also disclosed that audit supervisors did not adequately understand DoD 7600.7-M. We found that the audit plans and reviews of 13 audits of the Activity field offices did not meet standards. Discussions with audit supervisors showed that they were not aware of the DoD standards that their plans and audits had to meet, and some supervisors had never seen the DoD audit manual. This was the case at one Activity where we reviewed four audits. Working papers were not cross-referenced to the audit reports or audit programs for the four audits. In one audit, the auditor reduced the scope of the review without any explanation. In another audit, a potential finding documented in the working papers was not reported. The supervisors had reviewed the four audits, but the reviews were inadequate. Additional training should be provided to audit supervisors so that they fully understand the standards in DoD 7600.7-M.

Quality Assurance Reviews. During the period beginning in FY 1986 and ending on March 31, 1989, Headquarters Activity performed 60 internal quality assurance reviews at 24 of the Activity field offices. These 60 reviews did not conform to DoD 7600.7-M. DoD standards require that internal quality control reviews be performed in the same manner as any other audit and that a formal report be issued and working papers be maintained. The Headquarters Activity did not issue any formal reports, and no working papers were maintained. Only a memorandum of records was made to document the quality assurance reviews. In addition, no quality assurance reviews were made of the centrally controlled audits.

The Headquarters Activity did not follow up on or obtain responses from the Activity field offices on deficiencies noted in the quality assurance reviews. As a result, these deficiencies were not corrected. The 60 memorandums of record noted 65 deficiencies, such as inadequate supervision, failure to comply with regulations, improper indexing of working papers, incorrect report format, poor working paper files, insufficient audit coverage, and failure to meet audit objectives. At nine of the Activity field offices, the Headquarters Activity review team found repeat quality assurance findings. At 10 of the 16 Activity field offices we visited, we noted deficiencies in working papers and reporting similar to those found in previous quality assurance reviews. We also identified deficiencies in working papers and reporting that had not been previously noted in the quality assurance reviews for 12 of the Activity field offices.

Because the Headquarters Activity did not prepare audit reports and retain working papers, we were unable to determine the scope and adequacy of its 60 quality assurance reviews. However, because of conditions we found, we believe these reviews were inadequate. We also determined that one auditor spent 4.5 days for each of the 60 reviews. During this period, Headquarters activity made an average of two quality assurance reviews in 3 years at each activity. DoD 7600.7-M requires only one internal quality assurance review every 3 years. By making only one visit, quality assurance reviewers could expand the coverage and make more economical use of their resources. Also, following up on the quality assurance reviews would make the quality assurance program more effective. DLAM 7000.7 should require that quality assurance reviews be performed in accordance with DoD 7600.7-M and that Activity field offices respond to quality assurance reports by discussing planned corrections so that an effective follow-up program can be implemented.

Organizational Impairments. Standards for audit independence had been violated at 9 of 16 Activity field offices and the Headquarters Activity. Impairments of audit independence were significant in themselves, and they were also evident in major deficiencies identified in audit plans, audit work, and the quality assurance program, as well as use of audit personnel for accounting functions normally performed by the auditee.

Activity Field Offices. The Activity field offices reported to the installation commander, as required by DoD 7600.7-M. However, at 8 of the 16 Activity field offices, management did not provide adequate financial support for field office operations and impaired the auditors' ability to select audits, establish the scope of work, and draw conclusions. One violation of the standard for independence was the use of personnel from four of the Activity field offices to perform accounting functions at two field activities. At the Defense Contract Administration Services Region (DCASR)-Los Angeles (now Defense Contract Administration Services District West (DCASDW)), the Activity field office personnel worked in the Comptroller's office to reconcile contract obligations. Also, auditors from the Activity field offices at DCASR-Atlanta (now Defense Contract Administration Services District South (DCASDS)) and DCASR-Boston (now Defense Contract Administration Services District Northeast (DCASDN)) were assigned to assist DCASR-Los Angeles in reconciling contract obligations. At the Defense Fuel Supply Center (DFSC), auditors from the Activity field office assisted the Comptroller in implementing an accounting system. While we commend DLA's initiative in addressing serious accounting problems, the choice of Internal Review personnel to perform such tasks compromises their independence and apparent objectivity in any subsequent audit of those records.

Closely related to the issue of independence was management's restriction of funds for the Activity audit positions and travel. The degree of auditor independence appeared to coincide with the degree of support the field activity commander offered. At one DCASR (now Defense Contract Administration Services District), the previous Commander had discontinued the Activity field office in FY 1989. A year later, a new Commander staffed the Activity field office with two auditors. At another DCASR, the audit staff of the Activity field office was allowed to decrease through attrition from 11 auditors in FY 1985 to 5 auditors in FY 1988. Another Activity field office was staffed with only 2 auditors to provide coverage of 200 subordinate activities for the United States and overseas. These commanders did not adequately support internal review activities. The Headquarters Activity had no authority to review or approve the resource levels established by the field activity commanders.

Headquarters Activity. The Headquarters Activity reported to the Comptroller. This line of organizational control does not comply with DoDD 7600.2. In addition, the Headquarters Activity was unable to ensure that the Activity field offices followed DLA policies and procedures and DoD auditing standards and conducted effective quality assurance review programs. Effective quality assurance reviews of the Activity audits are one of the primary internal controls to ensure that field activities are following standards and that operations are efficient, economical, and effective. At the 16 Activity field offices visited, we found deficiencies in DoD auditing standards that the Activity's quality assurance review did not identify, or that were identified but never corrected. We discussed these deficiencies with personnel at the Headquarters Activity. Personnel stated that they were aware of the problems but failed to report them.

Personnel at the Activity field offices told us that the Headquarters Activity did not have the authority to ensure that audit policies and standards were followed. We found documentation of a visit made by the Director of the Activity to an Activity field office to discuss problems identified during a quality assurance review. In the Director's opinion, the field activity commander was not providing the Activity field office with adequate resources. However, the same condition still existed at the time of our visit. If Headquarters Activity reported to the Director or his Deputy, the Activity could use the DLA Director's influence to ensure that commanders of field activities take corrective action.

Being assigned to the Comptroller may have affected the Headquarters Activity's ability to conduct centrally controlled

audits. According to DLAR 7000.13, the Comptroller will guide, direct, and supervise the internal review function. As previously discussed, we found field work or reporting deficiencies in the six centrally controlled audits we reviewed. The centrally controlled audits on "Debt Collection" and "Contract Contingent Liability Records" did not include all the reports from the Activity field offices. The managers of these two audits told us that reports from the Activity field offices contained inconclusive data; however, they were unable to document this claim. Our review of the working papers for these two audits at the Activity field offices and Headquarters Activity found systemic problems that needed to be addressed and were critical to the Comptroller function. On two centrally controlled audits where no reports were issued, audit managers informed us that Primary Staff Elements requested the audits, so they saw no reason to prepare a report. However, DLAM 7000.7 requires preparation of a summary report.

Finally, the DLA Comptroller assigned and recommended assignment to the Activity of personnel with no prior audit experience and inadequate knowledge of auditing. The Director of the Headquarters Activity had no prior audit experience and little knowledge of audits when assigned to the position. Consequently, the Director was unable to identify and correct the audit work deficiencies discussed in this report. In addition, the Comptroller recommended assignment to the Activity field offices of accounting personnel who were displaced when the field activities' finance and accounting offices were centralized in Columbus, Ohio. Activity personnel estimated that, under the Comptroller's plan, 118 accounting personnel would be absorbed into the Activity. Placing accounting personnel in the Activity may alleviate some shortages of audit personnel. However, DLA did not prepare adequate justification for the 118 positions. At three of the Activity field offices we visited, these transferred accounting personnel were assigned as auditors at the working and supervisory grade levels without adequate audit training. For example, at one field activity, a person transferred from the accounting branch with no prior audit experience made an audit of "Followup of the Audit of Accountable Property." The working papers indicated that equipment was not properly accounted for; however, the report stated that all property was accounted for. The person who performed the audit stated that management had said the accountability problem was corrected, and a report was issued without findings or recommendations. However, we determined that management's claims were not verified.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director, Defense Logistics Agency:

1. Direct the Headquarters Internal Review Activity to review audit plans developed by the Internal Review Activity field offices for compliance with standards set by the General Accounting Office and DoD, and if plans are not in accordance with established standards, require field offices to resubmit such plans until standards are met.

2. Require the Internal Review Activity to evaluate audits where findings were not reported or developed, and where reports were not issued (Appendix C), to determine if those issues should be reopened.

3. Provide training to the supervisors of the Internal Review Activity on the audit standards in DoD 7600.7-M, "Internal Audit Manual," with emphasis on planning and supervising audits.

4. Establish procedures and policies that require performance of quality assurance reviews in accordance with the standards in DoD 7600.7-M.

5. Require the Internal Review Activity field offices to respond to quality assurance reports, and establish a follow-up system to ensure that corrective actions are taken on quality assurance reviews.

6. Require the Headquarters Internal Review Activity to establish minimum staffing and resource levels for all Internal Review Activity field offices, and implement these levels.

7. Require the Headquarters Internal Review Activity to report to the Director or Deputy Director.

MANAGEMENT COMMENTS

In response to the draft audit report, the Director, DLA advised the Inspector General on September 10, 1990, "I am establishing a panel consisting of senior DLA management officials to review the entire Internal Review process to include the role of DLA vis-a-vis that of the DoD organization. This panel will report its findings to me by 1 April 1991." (See Appendix I for complete text of comments.)

The Director partially concurred with the finding and stated that audit standards were applied too strictly and that IG, DoD auditors misinterpreted DoD audit standards and policies. He stated that the standard of independence was not violated, and that DLA had acted properly in assigning inexperienced personnel to its internal review offices. He also stated that recommendations in this report, if implemented, would make the Internal Review Activity a centralized audit organization.

The Director, DLA partially agreed that audit planning, working papers, and reporting did not meet established standards and stated that DLA has provided the Activity field offices with copies of Government Auditing Standards. He stated that a strict application of standards was used to evaluate Activity audits and that the audit report did not address any commendable audit work performed by DLA internal review activities. The Director, DLA believed the audit report focused on DLA audits with deficiencies and de-emphasized those audits that met standards.

The Director, DLA also disagreed with the section of the report that, in his view, implied that DLA Internal Review Offices performed meaningless audits.

The Director, DLA questioned our interpretation of the audit standards and policies in DoD 7600.7-M and DoDD 7600.2. His interpretation was that internal review organizations should be concerned with small segments of auditable entities, and that portions of DoD 7600.7-M do not apply to DLA. Also, the Director interpreted APO Report No. 87-007, "Oversight Survey of Internal Review Activities," dated April 27, 1987, as making a clear distinction between centralized audit and internal review organizations.

The Director, DLA also took exception to the statement in the report that the standard of independence was violated by the misuse of personnel from four Activity field offices to perform accounting functions at two field activities. He stated that the Activity field office auditors used to reconcile contract obligations would not be used to audit those records, since the records would be sent to the Defense Finance Center (DFC), Columbus, Ohio. The Director, DLA did agree that the use of the auditors at the Defense Fuel Supply Center violated the standard of independence. He also stated that the draft audit report did not demonstrate that any commander restricted audit work, and that it was common for audit organizations to limit the scope of an audit by restricting travel funding.

The Director, DLA justified his assignment of accounting personnel with no prior audit experience to Activity field offices as a method of preventing involuntary separations due to transfer of the accounting function to DFC, and stated that the reassignments were an opportunity to retain accounting expertise. He stated that these personnel would receive training and on-the-job experience. In addition, the Director, DLA asked for clarification of comments in the report that DLA did not adequately staff the internal review function and raised questions concerning the relative distribution of resources for oversight activity between the DLA and IG, DoD.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Inspector General has accepted the Director's response and recommended that IG, DoD representatives participate in the panel to ensure a mutually satisfactory outcome. Recommendations A.1., A.2., A.3., A.4., A.5., A.6., and A.7. are being held in suspense pending the results of the panel. Accordingly, we request comments on the Inspector General's recommendation to include IG, DoD representatives on the panel to ensure a mutually satisfactory outcome.

Many of DLA's management comments to Finding A. are inaccurate. The Director stated that the audit finding lacked balance because it did not address those cases where audit planning, working papers, and reporting met standards. Appendixes A and B clearly show those cases we found in compliance with audit standards. Despite DLA's statement to the contrary, the IG, DoD auditors were liberal when applying established standards to evaluate the Activity's audit work. However, we found and reported that more cases violated standards than were in compliance.

Our audit did not indicate that the Internal Review Activity performs meaningless audits. The report stated that the Activity should be achieving much better results. We stand by that conclusion.

The IG, DoD auditors did not misapply the standards in evaluating DLA's internal review Activity, as the Director, DLA stated. The AIG (APO) concurs in our interpretation of the standards.

In conclusion, the Director's comments to Finding A. are unsupported. Recommendations were made to bring the Activity into compliance with mandatory audit standards and to improve internal controls over the Activity, and to ensure that standards are followed and existing DLA audit policies are carried out.

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B. Verification of Corrective Actions

FINDING

The Defense Logistics Agency (DLA) did not have an effective verification program to ensure that corrective actions recommended in external and internal audit reports were implemented and internal control weaknesses reported in Annual Statements of Assurance were corrected. Follow-up focal points at field activities did not monitor actions taken on recommendations made in external audit reports, and did not verify that activities had actually taken the corrective actions reported. The Activity had not performed adequate verification that corrective actions were actually taken on 87 recommendations made in 23 audit reports from the General Accounting Office (GAO) and the Inspector General (IG), DoD; on 6 recommendations in 2 Activity reports; and on internal control weaknesses reported in DLA's Annual Statements of Assurance. As a result, DLA could not provide reasonable assurance that deficiencies addressed in GAO; IG, DoD; and Activity reports were actually corrected and that internal controls were functioning as required by the Federal Managers' Financial Integrity Act of 1982.

DISCUSSION OF DETAILS

Background. Office of Management and Budget (OMB) Circular No. A-50, "Audit Followup," dated September 29, 1982, states that agency management officials and auditors share the responsibility for audit followup. Management must take corrective actions on resolved findings and recommendations in order to improve the effectiveness and efficiency of Government operations. The Circular further clarifies the requirements for establishing a follow-up system. Requirements include evaluating the system periodically to determine whether agencies take efficient, prompt, and proper corrective actions on audit recommendations. OMB Circular No. A-123, "Internal Control Systems," on the reporting of deficiencies in internal control systems, requires that a formal follow-up system be developed to monitor material internal control weaknesses reported in Annual Statements of Assurance to the Secretary of Defense. The Circular requires that such a system shall record and track recommendations and monitor whether changes are made as scheduled.

Department of Defense Directive 7650.3, "Followup on General Accounting Office, DoD Inspector General, Internal Audit, and Internal Review Reports," requires the Military Departments and Defense agencies with dedicated internal review programs to report the follow-up status of internal review reports periodically to the IG, DoD. The Directive also requires selective on-site verification efforts or other measures to

determine whether corrective actions taken by managers in response to audit reports were prompt, complete, and properly reported; what monetary benefits were achieved; and whether those actions corrected the problems reported by the auditors. The determination of whether a follow-up action is considered complete or still open is made by the Assistant Inspector General for Analysis and Followup (AIG (AFU)) for OIG and GAO reports; by Military Department follow-up officials for the Army Audit Agency, Naval Audit Service, and Air Force Audit Agency; and by the Comptroller, DLA for internal review reports.

Finally, the Directive requires DoD internal audit organizations (to include internal review activities) to assist audit follow-up officials and the AIG (AFU), DoD in assessing the responsiveness of actions taken by DoD Components regarding agreed-upon recommendations by the GAO; the IG, DoD; and the Activity. The DoD internal audit organizations are required by professional audit standards to perform followup on findings and recommendations from previous audits that could affect current audit objectives. Followup determines whether prompt and appropriate corrective actions have been taken and maximum benefits achieved. Internal audit organizations are also required by DoD Directive 7650.3 to report instances of noncompliance with agreed-upon audit recommendations to the appropriate DoD Component manager and provide copies of the reports to the AIG (AFU). The Activity reports follow-up verification data to the Comptroller, DLA on the premise that such information will be used to adjust or update DLA audit follow-up status reports to the AIG (AFU).

Department of Defense Directive 5010.38, "Internal Management Control Program," requires that a follow-up system be established for the internal management control program. The follow-up system must include a quality assurance program to ensure that the system of internal management controls meets the objectives of OMB Circular No. A-123, "Internal Control Systems," and that reported corrections of material weaknesses in the Statements of Assurance are tested and verified to ensure that controls are operating as intended. The Directive also specifies that follow-up efforts on audits and internal controls should be coordinated.

Defense Logistics Agency Regulation (DLAR) 7600.11, "Followup on Audit, Inspection, Hotline, and Internal Review Reports," designates the Headquarters Activity Division (DLA-CI) as the DLA follow-up focal point for developing and implementing policies, systems, and procedures for the DLA follow-up program. On a recurring basis, the DLA-CI will evaluate the effectiveness of subordinate follow-up systems in the Primary Staff Elements and Primary Level Field Activities (field activities). The field

activities are to identify and track all actions taken on recommendations from GAO; IG, DoD; and Activity reports. The commanders of field activities determine the organizational placement of the follow-up programs at their field activities. Also, DLAR 5010.4, "Internal Management Control Program," requires the policy and plans office to implement a follow-up system for all material weaknesses identified by the internal management control program and verify that actions taken have corrected the conditions.

Defense Logistics Agency Manual (DLAM) 7000.7, "Internal Review Audit Manual," requires the staffs of the Activity field offices to verify, on-site, the actual completion of corrective actions on GAO or IG, DoD recommendations. At the time of our audit, the Director, DLA required 100 percent verification on reported completions. This stringent requirement was established by the DLA to correct the inaccurate DLA follow-up status reporting found by the AIG (AFU) in 1985. Also, follow-up reviews were to be performed on internal review audit reports and material internal control weaknesses identified in the Annual Statements of Assurance. DLAR 7600.11 also requires that copies of certification of physical verification be submitted to the Comptroller, DLA.

Activity Verification. We performed a review to determine whether the corrective actions that the Primary Level Field Activities reported to the Comptroller, DLA were actually accomplished. We reviewed 28 GAO and IG, DoD reports with 87 recommendations, and 4 Internal Review reports with 19 recommendations. All of those recommendations were reported to the Comptroller, DLA as completed during the period beginning on October 31, 1985, and ending on March 31, 1989. In addition, we selected material internal control weaknesses reported as closed in the Annual Statements of Assurance to determine whether the corrective actions were adequately implemented.

We reviewed internal review files to ascertain whether the completion of the agreed-upon actions had been documented and verified. For the period FY 1986 to FY 1988, the Activity allocated 4,175 staff days, or 9 percent, of its direct audit time to audit followup. Nevertheless, we determined that the Activity was not effectively verifying that DLA had actually taken the corrective actions reported to the Comptroller, DLA as complete (see Appendix D for a schedule of audits reviewed).

External Audit Followup. Eighty-seven recommendations reviewed were reported as completed corrective actions to the Comptroller, DLA and the AIG (AFU). Of those 87 items, 35 were reported as completed corrective actions without assurance that effective action was complete. Appendix D lists the reports

examined and the corrective actions that were not effectively implemented at the time of our review, although the actions had been reported to the Comptroller, DLA and the AIG (AFU) as completed. The AIG (AFU) staff exercised independent judgment on whether sufficient documentation existed to warrant closing a case in the official DoD records of audit followup. While DLA recommendations for closure of these items were considered, they generally were not accepted.

Example of Misreporting on External Audits. The Assistant Inspector General for Auditing, DoD issued a report on April 8, 1987, titled, "Audit of the Accuracy of Property Books at the Defense Contract Administration Services Region-Los Angeles." Defense Contract Administration Services Region (DCASR)-Los Angeles (now DCASDW) concurred with all four recommendations, which were to establish a property control and accountability system, establish procedures for maintenance of property, require appropriate training for property custodians, and perform a complete inventory (to include data processing equipment).

We determined that only the first recommendation was effectively implemented. The Defense Contract Administration Services Management Area (DCASMA) (now Defense Contract Administration Area Operations)-Van Nuys did not train the property book custodian or provide him with procedures for property accounting. The DCASMA-Van Nuys also did not comply with the recommendation to conduct a complete inventory. As a result, we identified over 2,000 items of data processing equipment, valued at \$5 million, that had been issued to the DCASMA-Van Nuys but were not accounted for on property records.

Activity Audit Reports. For 6 of the 19 recommendations by the Activity in 2 of the 4 reports we reviewed, installation management did not take adequate measures to correct the deficiencies. Furthermore, Internal Review had not verified whether those corrective actions were accomplished.

For example, the Activity field office at DCASR-Los Angeles issued a report, "Audit of Contract Property Management," on October 10, 1985. It was recommended that the regional contract property managers visit the field activities annually. The purpose of the annual visits was to ensure that the regional Contract Property Management Division monitored monthly reports from field activities to detect survey slippages and staffing problems at the DCASMA's. The report further recommended that regional contract property managers help the field activities resolve problems. Although DCASR-Los Angeles initially complied with the intent of the recommendation, we found that the Property Contract Division had suspended further reviews until funds were

provided for on-site inspections. The last inspection of a DCASR facility occurred on November 25, 1987. Inspections are required by DLAM 5810.1 and should provide technical guidance for the supervision of property management functions at subordinate activities.

Annual Statements of Assurance. The material internal control weaknesses identified in two reports issued to DCASR-Boston by the IG, DoD were included in the field activities' Annual Statements of Assurance. We determined that 11 of the 33 recommendations for correcting those weaknesses were reported to DLA officials as completed corrective actions, although those actions were, in fact, not implemented; yet the Activity field offices had performed verification work. As a result, the Policy and Plans Directorates at two field activities incorrectly closed out material internal control weaknesses before the Primary Staff Elements initiated corrective action.

As a result of an IG, DoD report, a material weakness was reported in FY 1986 by DCASR-Boston in that "property book records were found to be incomplete, inaccurate, and not serving the purpose for which intended. In its Annual Statement of Assurance to DLA Headquarters, DCASR-Boston reported that corrective actions were completed in FY 1987. This internal control weakness was reported as corrected because of an audit conducted by the Activity field office that erroneously reported that the PSE's had corrected the property accountability deficiencies. We reviewed the audit and found that the working papers did not support the conclusion in the audit report.

In the second case, DCASR-Boston reported in FY 1987 that "the pay and examination section should reconcile and verify the balance of outstanding travel advances as required by Army Regulation 37-108, "Controls Over Travel Advances." Corrective actions were reported as complete in FY 1988 in DCASR-Boston's Annual Statement of Assurance. A memorandum from the Activity field office stated that the auditors could never determine that a complete reconciliation was performed, since no cutoff date was set for November or December 1987. The staff manager indicated in the FY 1988 Annual Statement of Assurance that monthly reconciliations were conducted and documented.

The directorates also failed to notify the Activity field office so that corrective actions could be verified as completed. For example, in FY 1987, the Plans and Policy Directorate at DCASR-Philadelphia (now Defense Contract Administration Services District Mid-Atlantic (DCASDM)) curtailed all quality assurance management verifications "due to understaffing and accomplishment of DLA-directed projects." Consequently, the coordinator of the DCASR-Philadelphia field activity's internal management control

program did not conduct tests or ask the Activity field offices to determine whether corrective actions were implemented or whether the actions corrected the reported deficiencies.

RECOMMENDATIONS FOR CORRECTIVE ACTION

We recommend that the Director, Defense Logistics Agency:

1. Require the management panel be tasked to review the role of the Internal Review Activity and to recommend revisions to DLA Regulation 7600.11 and DLA Manual 7000.7 that will bring the DLA Internal Review Activity into compliance with the requirements of DoD Directive 7650.3.

2. Require that the management panel include cognizant representatives of the IG, DoD to ensure a mutually satisfactory outcome.

MANAGEMENT COMMENTS

In response to the draft audit report and a draft AIG (AFU) report, "Oversight Review of the Defense Logistics Agency Internal Audit Followup Tracking and Verification Process," issued on June 22, 1990, the Director, DLA advised the Inspector General on September 10, 1990, "I am establishing a panel consisting of senior DLA management officials to review the entire Internal Review process to include the role of DLA vis-a-vis that of the DoD organization. This panel will report its findings to me by 1 April 1992." (See Appendix F for complete text of comments.)

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Inspector General has accepted the Director's response and advised him that the IG, DoD will make cognizant staff available to the DLA to assist in the review.

The Director, DLA also stated that the draft report contained misstatements; however, we believe that there are no material or substantive misstatements and stand by our conclusions. Because the draft AIG (AFU) report contains specific recommendations to improve the overall DLA follow-up program and because the management panel could address the Internal Review Activity's support for the audit followup and internal control programs, we are withdrawing the recommendations in the draft report for Finding B. Instead, we are recommending that the management panel, to include representatives of the IG, DoD, revise DLAR 7600.11 and DLAM 7000.7 to bring the Activity into compliance with the requirements of DoD Directive 7650.3. Accordingly, we request comments on Recommendation B.1. and B.2. above.

REVIEW OF FIELD WORK STANDARDS

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work Inadequate In Scope or Did Not Meet Objectives	Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation	Inadequate Audit Program	Inadequate Supervision
<u>Activity Field Offices:</u>							
<u>Defense Contract Administration Services Regions (DCASR's):</u>							
<u>Atlanta, Georgia:</u>							
1. Review of Rental Car Usage on TDY/PCS (Audit No. 14-87-22)	X		X	X			X
2. Standard Automated Materiel Management System (SAMMS) Violations (Audit No. 9-87-26)	X		X	X			X
3. Review of DoD Parts Control Program (Audit No. 2-87-4)	X		X				X
<u>Boston, Massachusetts:</u>							
4. Review of Debt Collection (Audit No. 87-7)				X			X
5. Review Follow-up Audit of Accountable Property (Audit No. 88-13)			X	X			X
6. Review of DoD Parts Control Program (Audit No. 87-2)	X			X	X		X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work		Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation		Inadequate Audit Program	Inadequate Supervision
			Inadequate In Scope or Did Not Meet Objectives	Inadequate In Scope or Did Not Meet Objectives		Inadequate Working Paper Preparation			
<u>Chicago, Illinois:</u>									
<u>Activity Field Offices:</u>									
7. Reporting Procedures for Contract Management Performance Objectives A-8 and A-9 (Audit No. 88-26)	X	X	X	X	X				X
8. Quality Assurance Management Survey Program (Audit No. 88-25)		X	X	X				X	
9. Survey of Use and Rental of Government Property (Audit No. 88-12)		X						X	
10. Review of Equal Opportunity (EEO) Discrimination Complaints (Audit No. 87-17)	X		X	X	X	X	X	X	X
11. Review of Accountable Property (Audit No. 88-17)	X		X	X			X		X
<u>Los Angeles, California:</u>									
12. Audits of Contract Property Management: Phase I - Property Administration (Audit No. DI-18-85)									
13. Internal Review Followup on Audit and Inspection Findings (Audit No. DI-10-86)		X							

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work		Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation		Inadequate Audit Program	Inadequate Supervision
			Inadequate In Scope or Did Not Meet Objectives	Inadequate In Scope or Did Not Meet Objectives		Inadequate Working Paper Preparation	Inadequate Working Paper Preparation		
14. Review of Debt Collection/ Standard Automated Materiel Management System Violations (Audit No. DI-5-87)									
15. Audit of Employee Tuition Reimbursement (Audit No. DI-7-88)			X		X			X	X
16. Audit of Compensation System (Audit No. DI-2-86)		X							
17. Internal Review Followup on Contract Payment Audit (Audit No. DI-11-86)		X							
18. Audit of Property Management (Audit No. DI-12-88)		X							
<u>Philadelphia, Pennsylvania:</u>									
19. Telephone Review (Audit No. 89-2)	X			X					
<u>St. Louis, Missouri:</u>									
20. Review of Office of Civilian Personnel Processing Recruit Actions (Audit No. IR 87-1)									X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work		Statements or Facts Not Supported or Inaccurate	Inadequate		Inadequate Supervision
			Inadequate In Scope or Did Not Meet Objectives	Working Paper Preparation		Audit Program		
<u>Activity Field Offices:</u>								
21. Review of the Directorate of Contract Administration ACO Debt Collection (Audit No. IR-87-12)	X							
22. Review of the Automated Payroll, Cost and Personnel System (Audit No. IR-88-3)	X		X		X			
23. Advisory Report on the Contract Contingent Liability Record (Audit No. IR-88-7)								
<u>Supply Centers:</u>								
<u>Defense Construction Supply Center (DCSC), Columbus, Ohio:</u>								
24. Follow-Up Review of DoD, IG Audit Report 85-075, "DoD Parts Control Program," (Audit No. 3-87)								
25. Review of Unliquidated Obligations (Audit No. 11-88)	X	X	X		X			X
26. Review of DCSC Debt Collection Practices (Audit 2-87)	X							X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed		Working Papers Missing or Not Properly Filed		Field Work Inadequate In Scope or Did Not Meet Objectives		Statements or Facts Not Supported or Inaccurate		Inadequate Working Paper Preparation		Inadequate Audit Program		Inadequate Supervision
<u>Activity Field Offices:</u>													
27. Review of ACAPS Controls at DCSC (Audit No. 1-88)						X							X
28. Audit of Repacking Costs Charged to DCSC (Audit No. 40-87)								X					
<u>Defense Electronics Supply Center (DESC), Dayton, Ohio:</u>													
29. Review of the Accuracy of Property Book Records (Audit No. W-88-09)		X											
30. Review of Supply Management for Base Operations (Audit No. W-88-03)		X											
31. Review of Debt Collections (Audit No. C-87-05)		X											
<u>Defense General Supply Center (DGSC), Richmond, Virginia:</u>													
32. Audit of DGSC Contractor Debt Collection Practices (Audit No. C-87005)		X			X				X				X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

<u>Activity/Audit Title and Number</u>	<u>Working Papers or Reports Not Adequately Cross-Referenced and Indexed</u>	<u>Working Papers Missing or Not Properly Filed</u>	<u>Field Work Inadequate In Scope or Did Not Meet Objectives</u>	<u>Statements or Facts Not Supported or Inaccurate</u>	<u>Inadequate Working Paper Preparation</u>	<u>Inadequate Audit Program</u>	<u>Inadequate Supervision</u>

Activity Field Offices:

33. FY 88 Follow-Up Review (Audit No. F-8801) X

34. Audit of DoD Parts Control Program at the Defense General Supply Center (Audit No. S-87001)

35. Audit of Accountable Property Management at the Defense General Supply Center (Audit No. W-8801)

Defense Industrial Supply Center (DISC),
Philadelphia, Pennsylvania:

36. Audit of the Accuracy of Property Book (Audit No. DISC-3-88)

Defense Depots:

Mechanicsburg, Pennsylvania:

37. Audit of Federal Worker's Compensation (Audit No. IR-87-2) X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work Inadequate In Scope or Did Not Meet Objectives	Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation	Inadequate Audit Program	Inadequate Supervision
<u>Activity Field Offices:</u>							
<u>Ogden, Utah:</u>							
38. Review of Base Operations Support System (Audit No. 88-04)	X		X	X			
39. Review Debt Collection Defense Depot Ogden (Audit No. 87-02)	X						X
40. Accountable Property Management (Audit No. 88-07)	X	X		X			X
<u>Service Centers:</u>							
<u>Defense Reutilization and Marketing Service (DRMS), Battle Creek, Michigan:</u>							
41. Audit of Inter-Service Support Agreements (Project No. 87-01)	X	X	X				
42. Audit of Enrollment and Enrollment Changes to Health Benefits Plans (Audit No. 87-03)						X	
43. Audit of Hazardous Contracting Procurement (Audit No. 87-04)						X	
44. Audit of Debt Collection (Audit No. 87-05)	X					X	X

(See totals for Activity Field Offices on page 8 of 9, Appendix A.)

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title and Number	Working Papers or Reports Not Adequately Cross-Referenced and Indexed	Working Papers Missing or Not Properly Filed	Field Work Inadequate In Scope or Did Not Meet Objectives	Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation	Inadequate Audit Program	Inadequate Supervision
<u>Activity Field Offices:</u>							
45. Audit of the Small Arms Serialization Program (Audit No. 87-06)						X	
46. Audit of Resource Recovery and Recycling Program (Audit No. 87-07)						X	X
47. Audit of Accountable Property (Audit No. 88-01)						X	X
48. Audit of FY 88 Budget Resource Requirements at DRMS Regions (Audit No. 88-05)			X				
49. Audit of Retail Sales (Audit No. 88-06)				X			X
50. Audit of Accountable Property Book (Audit No. 88-08)						X	
51. Reutilization Transportation Audit (Audit No. 88-09)				X		X	
52. Survey of Payment Certification (Audit No. 89-12)							
<u>Defense Technical Information Center (DTIC), Alexandria, Virginia:</u>							
53. Property Accountability Within the Defense Technical Information Center (Audit No. 8804)							
Totals	22	11	16	16	4	12	20

REVIEW OF FIELD WORK STANDARDS (Continued)

Activity/Audit Title*	Working Papers or Reports Not Adequately Cross-Referenced and Indexed		Working Papers Missing or Not Properly Filed	Field Work Inadequate In Scope or Did Not Meet Objectives	Statements or Facts Not Supported or Inaccurate	Inadequate Working Paper Preparation	Inadequate Audit Program	Inadequate Supervision
<u>Headquarters Activity, Centrally Controlled Audits:</u>								
1. ACAPS, Input Output, and Security Controls	X		X	X				X
2. Debt Collection Process	X			X	X			X
3. Contract Contingent Liability Records	X			X	X			X
4. Review of Property Management	X		X					X
5. Audit of Base Operations Systems			X					X
6. DoD Parts Control Program	-		-	-	-	-		X
Totals	4		3	3	2	0	0	6

*No audit numbers

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REVIEW OF REPORTING STANDARDS

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Details in Report	Inadequate Statements on Internal Controls and Compliance with Laws and Regulations

Activity Field Offices:

Defense Contract Administration Services Regions (DCASR's):

Atlanta, Georgia:

1. Review of Rental Car Usage on TDY/PCS (Audit No. 14-87-22)

30

2. Standard Automated Materiel Management System (SAMMS) Violations (Audit No. 9-87-26)

3. Review of DoD Parts Control Program (Audit No. 2-87-4)

Boston, Massachusetts:

4. Review of Debt Collection (Audit No. 87-7)

5. Review Follow-Up Audit of Accountable Property (Audit No. 88-13)

6. Review of DoD Parts Control Program (Audit No. 87-2)

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Details in Report	Inadequate Statements on Internal Controls and Compliance with Laws and Regulations
<u>Chicago, Illinois:</u>								
<u>Activity Field Offices:</u>								
7. Reporting Procedures for Contract Management Performance Objectives A-8 and A-9 (Audit No. 88-26)		X					X	
8. Quality Assurance Management Survey Program (Audit No. 88-25)							X	
9. Survey of Use and Rental of Government Property (Audit No. 88-12)						X	X	
10. Review of Equal Opportunity (EEO) Discrimination Complaints (Audit No. 87-17)								
11. Review of Accountable Property (Audit No. 88-17)				X				
<u>Los Angeles, California:</u>								
12. Audits of Contract Property Management: Phase I - Property Administration (Audit No. DI-18-85)		X						
13. Internal Review Followup on Audit and Inspection Findings (Audit No. DI-10-86)	X							

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Details in Report	Inadequate Statements on Internal Controls and Compliance with Laws and Regulations
Activity Field Offices:								
14. Review of Debt Collection/Standard Automated Materiel Management System Violations (Audit No. DI-5-87)		X					X	
15. Audit of Employee Tuition Reimbursement (Audit No. DI-7-88)								
16. Audit of Compensation System (Audit No. DI-2-86)	X							
17. Internal Review Followup on Contract Payment Audit (Audit No. DI-11-86)	X			X				
18. Audit of Property Management (Audit No. DI-12-88)	X			X				

Philadelphia, Pennsylvania:

19. Telephone Review (Audit No. 89-2)

St. Louis, Missouri:

20. Review of Office of Civilian
Personnel Processing Recruit
Actions (Audit No. IR 87-1)

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Details in Report	Inadequate Statements on Internal Controls and Compliance with Laws and Regulations

Activity Field Offices:

21. Review of the Directorate of Contract Administration ACO Debt Collection (Audit No. IR-87-12)								X
22. Review of the Automated Payroll, Cost and Personnel System (Audit No. IR-88-3)		X		X			X	
23. Advisory Report on the Contract Contingent Liability Record (Audit No. IR-88-7)								

Supply Centers:

Defense Construction Supply Center (DCSC),

Columbus, Ohio:

24. Follow-Up Review of DoD, IG Audit Report 85-075, "DoD Parts Control Program," (Audit No. 3-87)		X	X					
25. Review of Unliquidated Obligations (Audit No. 11-88)		X	X	X			X	
26. Review of DCSC Debt Collection Practices (Audit 2-87)		X						

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

<u>Activity/Audit Title and Number</u>	<u>Report Not Issued</u>	<u>Inadequate Scope</u>	<u>Objectives Inadequate as Stated</u>	<u>Potential Unreported Findings</u>	<u>Findings Without a Condition, Cause, or Effect</u>	<u>Dropped Findings or No Management Comments or Recommendations</u>	<u>Inadequate Details in Report</u>	<u>Inadequate Statements on Internal Controls and Compliance with Laws and Regulations</u>
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Activity Field Offices:

27. Review of ACAPS Controls at DCSC (Audit No. 1-88)

28. Audit of Repacking Costs Charged to DCSC (Audit No. 40-87)

Defense Electronics Supply Center (DESC),
Dayton, Ohio:

29. Review of the Accuracy of Property Book Records (Audit No. W-88-09)

30. Review of Supply Management for Base Operations (Audit No. W-88-03)

31. Review of Debt Collections (Audit No. C-87-05)

Defense General Supply Center (DGSC),
Richmond, Virginia:

32. Audit of DGSC Contractor Debt Collection Practices (Audit No. C-87005)

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Internal Controls and Compliance with Laws and Regulations
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Activity Field Offices:

33. FY 88 Follow-Up Review (Audit No. F-8801)

34. Audit of DoD Parts Control Program at the Defense General Supply Center (Audit No. S-87001)

35. Audit of Accountable Property Management at the Defense General Supply Center (Audit No. W-8801)

Defense Industrial Supply Center (DISC), Philadelphia, Pennsylvania:

36. Audit of the Accuracy of Property Book (Audit No. DISC-3-88)

Defense Depots:

Mechanicsburg, Pennsylvania:

37. Audit of Federal Worker's Compensation (Audit No. IR-87-2)

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

<u>Activity/Audit Title and Number</u>	<u>Report Not Issued</u>	<u>Inadequate Scope</u>	<u>Objectives Inadequate as Stated</u>	<u>Potential Unreported Findings</u>	<u>Findings Without a Condition, Cause, or Effect</u>	<u>Dropped Findings or No Management Comments or Recommendations</u>	<u>Inadequate Details in Report</u>	<u>Inadequate Statements on Internal Controls and Compliance with Laws and Regulations</u>
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Activity Field Offices:

Ogden, Utah:

- | | | | | | | | | |
|--|---|---|--|--|---|---|---|---|
| 38. Review of Base Operations Support System (Audit No. 88-04) | X | | | | X | X | X | X |
| 39. Review Debt Collection Defense Depot Ogden (Audit No. 87-02) | | X | | | X | | | X |
| 40. Accountable Property Management (Audit No. 88-07) | | X | | | X | | | |

Service Centers:

Defense Reutilization and Marketing Service (DRMS),

Battle Creek, Michigan:

- | | | | | | | | | |
|---|---|---|--|---|---|--|--|---|
| 41. Audit of Inter-Service Support Agreements (Project No. 87-01) | | X | | | X | | | X |
| 42. Audit of Enrollment and Enrollment Changes to Health Benefits Plans (Audit No. 87-03) | X | | | X | | | | |
| 43. Audit of Hazardous Contracting Procurement (Audit No. 87-04) | X | | | | | | | |
| 44. Audit of Debt Collection (Audit No. 87-05) | | X | | | X | | | X |

(See totals for Activity field offices on page 8 of 9, Appendix B)

REVIEW OF REPORTING STANDARDS (Continued)

Activity/Audit Title and Number	Report Not Issued	Inadequate Scope	Objectives Inadequate as Stated	Potential Unreported Findings	Findings Without a Condition, Cause, or Effect	Dropped Findings or No Management Comments or Recommendations	Inadequate Details in Report	Inadequate Statements on Internal Controls and Compliance with Laws and Regulations
<u>Activity Field Offices:</u>								
45. Audit of the Small Arms Serialization Program (Audit No. 87-06)		X		X	X		X	
46. Audit of Resource Recovery and Recycling Program (Audit No. 87-07)		X			X			X
47. Audit of Accountable Property (Audit No. 88-01)		X	X					X
48. Audit of FY 88 Budget Resource Requirements at DRMS Regions (Audit No. 88-05)	X			X				
49. Audit of Retail Sales (Audit No. 88-06)								
50. Audit of Accountable Property Book (Audit No. 88-08)		X	X		X	X	X	X
51. Reutilization Transportation Audit (Audit No. 88-09)					X			X
52. Survey of Payment Certification (Audit No. 89-12)		X	X					
<u>Defense Technical Information Center (DTIC), Alexandria, Virginia:</u>								
53. Property Accountability Within the Defense Technical Information Center (Audit No. 8804)	-	-	-	-	-	-	-	-
Totals	8	21	6	16	10	5	10	12

REVIEW OF REPORTING STANDARDS (Continued)

<u>Activity/Audit Title*</u>	<u>Report Not Issued</u>	<u>Inadequate Scope</u>	<u>Objectives Inadequate as Stated</u>	<u>Potential Unreported Findings</u>	<u>Findings Without a Condition, Cause, or Effect</u>	<u>Dropped Findings or No Management Comments or Recommendations</u>	<u>Inadequate Details in Report</u>	<u>Inadequate Statements on Internal Controls and Compliance with Laws and Regulations</u>
<u>Headquarters Activity, Centrally Controlled Audits:</u>								
1. ACAPS, Input Output, and Security Controls		X				X		X
2. Debt Collection Process		X				X	X	
3. Contract Contingent Liability Records		X				X	X	X
4. Review of Property Management	X			X				
5. Audit of Base Operations Systems	X			X				
6. DoD Parts Control Program	-	X	-	-	-	-	X	X
Totals	<u>2</u>	<u>4</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>3</u>	<u>3</u>	<u>3</u>

*No audit numbers.

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UNPUBLISHED AUDIT REPORTS AND FINDINGS

<u>Activity</u>	<u>Audit Title and Number</u>	Final Report Issued (Yes/No)	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
<u>Activity Field Offices:</u> Defense Contract Administration Services Regions: Atlanta, Georgia	Review of Standard Auto- mated Materiel Management System (Audit No. 9-87-26)	Yes	1. Demand letters to recover duplicate payments were not processed promptly.
			2. Researching and reconciliation of payments was not always performed to identify duplicate payments.
	Review of Rental Car Usage on TDY/PCS (Audit No. 14-87-22)	Yes	1. Personnel on temporary duty did not use the most economical rental cars.
Boston, Massachusetts	Followup of the Audit of Accountable Property (Audit No. 88-13 and 87-3)	Yes	1. Property was found that was not on the master inventory list.
			2. Property was not properly identified by tags, was assigned wrong property numbers, or was missing.
			3. Offices did not have hand receipts or transfer documents.
			4. Inadequate security existed over computer and electronic equipment.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

<u>Activity</u>	<u>Audit Title and Number</u>	<u>Final Report Issued (Yes/No)</u>	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
<u>Activity Field Offices:</u>			
Chicago, Illinois	Review of Accountable Property (Audit No. 88-17)	Yes	1. Transactions for property received, transferred, or disposed of were not entered into the property book. 2. Property items had incorrect financial classification codes.
St. Louis, Missouri	Review of the Automated Payroll Cost and Personnel Systems (Audit No. 88-3)	Yes	1. Payroll transactions did not have supporting documentation. 2. Time and attendance reports did not have authorizing signatures.
Los Angeles, California	Internal Review Followup on Audit and Inspection Findings (Audit No. DI-10-86)	No	1. Twenty recommendations from various prior external and internal review reports remained open.
	Internal Review Followup on Contract Payment Audit (Audit No. DI-11-86)	No	1. Sixteen recommendations on a prior internal review audit had not been corrected.
	Audit of Compensation System (Audit No. DI-2-86)	No	1. Working papers could not be located.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

<u>Activity</u>	<u>Audit Title and Number</u>	<u>Final Report Issued (Yes/No)</u>	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
<u>Activity Field Offices:</u>			
Los Angeles, California	Audit of Property Management (Audit No. DI-12-88)	No	1. The audit was started and subsequently cancelled. No working papers or reports could be located. Followup on prior IG reports showed a serious problem with accountability.
<u>Supply Centers:</u>			
Defense Construction Supply Center, Columbus, Ohio	Review of Unliquidated Obligations (Audit No. 11-88)	Yes	1. Automated systems program produced erroneous summary reports of unliquidated obligations. 2. Funds control detail and general ledger were not in balance. A major internal control weakness. 3. Subsidiary accounts were closed out prior to the general ledger trail balance. 4. Statistics on unliquidated obligations and deobligation of funds were not maintained. 5. Personnel researching unliquidated obligations were not comparing open obligations to obligations written off at the Defense Contract Administration Services Regions.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

<u>Activity</u>	<u>Audit Title and Number</u>	<u>Final Report Issued (Yes/No)</u>	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
<u>Activity Field Offices:</u>			
Defense Construction Supply Center, Columbus, Ohio	Review of Repacking Costs Charged to the Defense Construction Supply Center (Project No. 40-87)	No	1. Newly procured items were being repackaged by the Government at an annual cost of \$500,000. 2. Repacking costs were understated. 3. The Defense Depot Ogden, Utah, did not bill the supply center for all repackaging costs. 4. The supply center did not reconcile the general ledger accounts to the documents that supported repackaging costs. 5. The supply center did not establish accounts receivable for refunds due from contractors and did not know what amounts had been billed. 6. The supply center had to repack items that had been improperly packaged by contractors. 7. Costs to correct packaging deficiencies were not computed in accordance with DLA procedures. 8. DLA did not take actions to recover costs for repackaging from contractors.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

<u>Activity</u>	<u>Audit Title and Number</u>	<u>Final Report Issued (Yes/No)</u>	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
<u>Activity Field Offices:</u>			
Defense Electronics Supply Center, Dayton, Ohio	Audit of Base Operating Supply System (Audit No. W-88-03)	Yes	1. Base Supply Operations used improper methodology to compute inventory accuracy rates, thus overstating the effectiveness of its inventory control efforts.
Defense General Supply Center, Richmond, Virginia	Audit of Defense General Supply Center (DGSC) Contractor Debt Collection Practices (Audit No. C87005)	Yes	1. DGSC transferred supporting documentation for \$2.1 million in contractor debts to Headquarters without maintaining copies of the documentation. Transferred amounts did not agree with Headquarters records and there was no evidence that DGSC tried to collect on the accounts receivable.
<u>Service Center:</u>			
Defense Reutilization and Marketing Service, Battle Creek, Michigan	Audit of Enrollment Changes to Health Benefits Plans (Audit No. 87-03)	No	1. A review of health benefits forms indicated potential problems with completing the forms and delays in processing them.
	Audit of Hazardous Contracting Procurement (Audit No. 87-04)	No	1. Excessive delays in awarding hazardous waste removal contracts may have had adverse effects on the waste generators.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

Activity	Audit Title and Number	Final Report Issued (Yes/No)	Potential Finding Not Developed, Dropped from Report, or Never Reported
<u>Activity Field Offices:</u>			
Defense Reutilization and Marketing Service, Battle Creek, Michigan	Audit of FY 88 Budget Resource Requirements at Defense Reutilization and Marketing Service (DRMS) Regions (Audit No. 88-05)	No	1. Survey indicated that the DRMS field activity did not program budget cuts in nonproduction accounts in accordance with the DRMS Comptroller's instructions.
	Audit of Small Arms Serialization Program (Audit No. 87-06)	Yes	1. Small arms inventory on hand was not reconciled to the Small Arms Serialization Program for line items and quantities.
<u>Centrally Controlled Audits:</u>			
Headquarters Activity	Audit of Base Operations Support Center (Audit No. - None Assigned)	No	1. Control measures to safeguard and secure assets were inadequate. 2. Excess stock was on hand. 3. Controls over inventory adjustments were not adequate and supporting documentation was not maintained.

UNPUBLISHED AUDIT REPORTS AND FINDINGS (Continued)

<u>Activity</u>	<u>Audit Title and Number</u>	<u>Final Report Issued (Yes/No)</u>	<u>Potential Finding Not Developed, Dropped from Report, or Never Reported</u>
Headquarters Activity	Audit of Property Management (Audit No. - None Assigned)	No	1. Noncompliance with DoD and Defense Logistics Agency accounting procedures. 2. Inventory counting was improperly conducted, and actions such as deletions and adjustments were not documented. 3. Records were not reconciled to financial records. 4. Poor internal controls. 5. There was no reasonable assurance that property was safeguarded or controlled.

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VERIFICATION OF AUDIT REPORT RECOMMENDATIONS

<u>Project Title and Number</u>	<u>Number of Recommendations Reported by DLA as Implemented</u>	<u>Number of Recommendations Not Effectively Implemented</u> <u>2/</u> by DLA	<u>Management Actions Inadequately Verified or Not Verified by DLA Internal Review</u>
<u>U.S. General Accounting Office:</u>			
1. Internal Controls-Defense Fuel Supply Centers Recording and Reporting of Accounts Payable (Report No. AFMO 87-30)	3	1	X
2. Procurement-Defense Logistics Agency Implementation of the Spare Parts Initiatives (Report No. NSAID-87-145)	1	0	X
<u>Office of the Inspector General, DoD</u>			
3. Report on the Accuracy of Property Book Records at the Defense Contract Administration Services Region, St. Louis (Report No. 87-133)	7	5	
4. Audit of Contractor Use of Government Transportation Requests (Report No. 87-145)	1	0	X
5. Report on the Audit of Cash Management Initiatives and Prompt Payment Procedures at the Defense Logistics Agency (Report No. 87-022)	2	0	X

(See totals on page 5 of 6)

VERIFICATION OF AUDIT REPORT RECOMMENDATIONS (Continued)

Project Title and Number	Number of Recommendations 1/ Reported by DLA as Implemented	Number of Recommendations		Management Actions Inadequately Verified or Not Verified by DLA Internal Review
		Not Effectively Implemented	2/ By DLA	
6. Audit of the Effectiveness of Contract Administration Activities in Evaluating and Controlling Contract Overhead Through Cost Monitoring Program Reviews (Report No. 87-184)	4	0		X
7. Accuracy of Property Book Records at the Defense Contract Administration Services Region, Los Angeles (Report No. 87-122)	4	3		X
8. Accuracy of Property Book Records at the Defense Contract Administration Services Region, Boston (Report No. 87-123)	6	6		X
9. Accuracy of Property Book Records at the Defense Depot, Ogden, Utah (Report No. 87-143)	2	2		
10. Audit of Pricing Contract DLA-900-82-C-5481 at Varian Associates, Incorporated, Microwave Division (Report No. 87-170)	1	0		
11. Audit of the Hazardous Materials Technical Center (Report No. 87-146)	4	2		X
12. Audit of Management of Small Computers in the Defense Logistics Agency (Report No. 87-211)	2	2		X

(See totals on page 5 of 6)

VERIFICATION OF AUDIT REPORT RECOMMENDATIONS (Continued)

<u>Project Title and Number</u>	<u>Number of Recommendations 1/ Reported by DLA as Implemented</u>	<u>Number of Recommendations Not Effectively Implemented 2/ by DLA</u>	<u>Management Actions Inadequately Verified or Not Verified by DLA Internal Review</u>
13. Audit of the Assignment of Demilitarization Codes on Munitions List Items (Report No. 87-223)	1	0	
14. Audit of the Allocation of Marketing Expenses to Defense Contracts (Report No. 88-152)	9	0	X
15. Audit of Civilian Pay at the Defense Personnel Support Center (Report No. 88-091)	16	0	X
16. Audit of Fuel by Military Sealift Command (Report No. 88-144)	1	0	X
17. Audit of Minimum Economic Quantities (Report No. 88-020)	5	5	X
18. Audit of Conforming Storage for Hazardous Products (Report No. 88-115)	1	0	
19. Report on the Audit of the Pricing of Contract DLA-400-81-C-3900, Uniroyal Incorporated, Plastics Product Division (Report No. 86-118)	1	0	X

(See totals on page 5 of 6)

VERIFICATION OF AUDIT REPORT RECOMMENDATIONS (Continued)

Project Title and Number	Number of Recommendations 1/ Reported by DLA as Implemented	Number of Recommendations Not Effectively Implemented by DLA	Management Actions	
			Inadequately Verified or Not Verified	by DLA Internal Review
20. Final Report on the Audit of the Pricing of Contract DLA-400-83-C-2046, Uniroyal, Incorporated, Plastics (Report No. 86-041)	1	0		X
21. Report on the Audit of Debt Collection Practices at the Defense Logistics Agency (Report No. 86-042)	6	6		X
22. Report on the Audit of the DoD Parts Control Program (Report No. 85-075)	1	0		X
23. Report on the Audit of the Pricing of Contract DLA-400-81-C-5274, Uniroyal Incorporated, Plastics Product Division (Report No. 85-100)	1	0		X
24. Report on the Audit of Materiel Management of Numeric Storage Objective Items by the Defense Logistics Agency (Report No. 85-057)	2	2		X
25. Report on the Audit of the Practices Used to Select Transportation Cost Factors in the Procurement of Volume-Lot Commodities (Report No. 84-023)	1	1		X

(See totals on page 5 of 6)

VERIFICATION OF AUDIT REPORT RECOMMENDATIONS (Continued)

<u>Project Title and Number</u>	<u>Number of Recommendations 1/ Reported by DLA as Implemented</u>	<u>Number of Recommendations Not Effectively Implemented 2/ by DLA</u>	<u>Management Actions Inadequately Verified or Not Verified by DLA Internal Review</u>
26. Report on the Review of Hazardous and Toxic Materials in the Department of Defense (Report No. 83-137)	1	0	X
27. Report on the Review of the Defense Energy Information System (Report No. 85-096)	1	0	X
28. Report on the Audit of the Electronic Contract Ordering System (Report No. 87-188)	<u>2</u>	<u>0</u>	<u>X</u>
Totals	<u>87</u>	<u>35</u>	<u>23</u>

VERIFICATION OF AUDIT REPORT RECOMMENDATIONS (Continued)

<u>Project Title and Number</u>	<u>Number of Recommendations 1/ Reported by DLA as Implemented</u>	<u>Number of Recommendations Not Effectively Implemented 2/ by DLA</u>	<u>Management Actions Inadequately Verified or Not Verified by DLA Internal Review</u>
<u>Internal Review Activity</u>			
1. Audit of Contract Property Management, DCASR <u>3/</u> - Los Angeles, California (Audit No. 18-85)	2	2	X
2. Audit of Automated Payroll Cost and Personnel System, DCASR - Los Angeles, California (Audit No. 09-88)	4	1	X
3. Review of DoD Parts Control Program, DCASR - Atlanta, Georgia (Audit No. 2-87-4)	8	2	
4. Audit Report on Property Accountability within the Defense Technical Information Center, Alexandria, Virginia (Audit No. 88-04)	<u>5</u>	<u>0</u>	<u>—</u>
Totals (Internal Audits)	<u>19</u>	<u>5</u>	<u>2</u>

- 1/ DLA - Defense Logistics Agency
2/ During the period that the Inspector General (IG), DoD review was conducted
3/ DCASR - Defense Contract Administration Services Region



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFER TO DLA-C

10 SEP 1990

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project No.
9FC-0027)

In response to your memo dated 5 June 1990, I have enclosed
comments on Findings A and B and the nine recommendations
associated with the findings.

CHARLES McCAUSLAND
Lieutenant General, USAF
Director

1 Encl

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

FINDING A: Internal Review Organization - The Internal Review Activity (The Activity) at the Defense Logistics Agency (DLA) did not follow the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," 1988 revision ("Government Auditing Standards") for audit planning, working papers, and reporting. This condition was caused by an ineffective quality assurance program: specifically, inadequate supervisory reviews and internal quality assurance reviews of audit planning, performance, and reporting. Also, the Activity's independence was impaired because DLA commands restricted the Activity resources and affected the conclusions of auditors. The Activity at DLA Headquarters (Headquarters Activity) did not report to the Director or Deputy Director as required by DoD Directive 7600.2, "Audit Policies." As a result, the Activity did not function efficiently or effectively and did not contribute significantly to DLA's internal control system. Audits identified few monetary benefits, and reports, findings, and recommendations were not prepared or were dropped without adequate justification.

DLA COMMENTS: Partially concur. The statement that the Internal Review Activity (the Activity) at the Defense Logistics Agency did not follow the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" ("Government Auditing Standards") for audit planning, working papers and reporting is partially correct. DLA provided each Primary Level Field Activity (PLFA) Internal Review office with copies of the Government Auditing Standards. At the annual Internal Review conference in 1988, the draft standards were discussed by DoD IG (APO) personnel. The published standards were discussed in detail by the Director, Office of Policy, GAO, at the 1989 conference.

We agree that in some instances the planning, working papers and reporting were not in full compliance with a most strict application of the "Standards." However, some of the activities visited by the auditors were considered commendable. The audit team told us that the Internal Review Office at the Defense Industrial Supply Center was effectively managed and operated. The team was impressed with the quality of the work performed and the qualifications of the staff. In light of the IG(A), DoD intent to provide a balanced report, we are concerned that there is neither mention of commendable situations, nor a degree or quantification of not meeting standards. Furthermore, the audit team expressed on several occasions that they were pleased with the professional approach taken by the DLA Internal Review staff. This is not to infer that they did not also feel that improvements could and should be made. In the finding, the auditors imply that nothing is being performed to any degree of acceptance. However, we believe that this finding has some merit, and we intend to take corrective action on conditions that can be improved. However, DLA does not have, nor does it intend to provide, unlimited

resources to the Internal Review Activity. The field activity Commanders were authorized a small staff that could be utilized to review local issues or to assess potential problem areas.

We do not agree with the section of the report that implies the Internal Review Offices performed meaningless audits. DoDD 7600.2, "Audit Policies," paragraph E.3.a. provides that the Assistant Inspector General for Auditing, Office of the Inspector General of the Department of Defense (AIG(AUD)), IG, DoD shall perform internal audits of and provide internal audit services to the Defense Agencies. Therefore, the AIG(AUD), IG, DoD is the central audit organization for the Defense Logistics Agency. As such, they provide audit coverage that concentrates on the primary mission areas. The Internal Review staffs are utilized by the local activity Commanders to perform audits that are generally not performed by the IG, DoD. We do not consider such areas as followup, physical verification, and compliance reviews to be insignificant. Also, DLA is complying with DoD 7600.7-M, Internal Audit Manual, as it provides that the internal audit organizations would devote primary emphasis to audit of programs or systems while internal review organizations would be concerned primarily with smaller segments of the organization to which they are assigned. DoD 7600.7-M is applicable to all DoD internal audit and internal review organizations, however, it provides relief as follows:

"...Certain portions of this manual do not apply to internal review... Each chapter will indicate the applicability of the provisions of that chapter...."

It is obvious that throughout the manual it was intended that some of the portions and guidance would be optional for internal review. In our opinion, the DoD IG auditors took too strict an interpretation of the manual.

Accordingly, if this portion of the finding remains part of the report, the mission and functions assigned to the central audit organization would require changes. The DoDD 7600.2, paragraph F.2, provides the following:

"2. Internal Review. The DoD Components may establish internal review organizations to provide local commanders with an internal audit capability to resolve known or suspected problem areas and operational deficiencies and to supplement the audit services provided by the cognizant internal audit organization. Their overall function is to furnish the commander with an independent and objective evaluation of operations and related internal controls. The internal review staff shall not be used to perform operating tasks. Internal review organizations may be used to perform audit liaison and audit followup on internal audits by others and to assist commanders in evaluating the adequacy of vulnerability assessments and internal control reviews. The cognizant internal audit organization shall provide audit policy and technical and training assistance, and shall conduct periodic evaluations of the effectiveness of internal review organizations."

This Directive very carefully outlines the Internal Review organization and its function as it relates to local commanders. We believe that this distinction was made because the AIG(AUD) is the central audit organization for Defense Agencies. The thrust of this finding clearly indicates that the IG auditors did not allow for any difference between a centrally controlled audit organization as opposed to an internal review

organization. This lack of adherence to the Directive in regard to this very basic difference of an audit versus internal review organization has apparently caused the IG auditors to be confused as to the degrees and levels of the type of audit services to be performed by audit as opposed to internal review organizations. The office of the Assistant Inspector General for Audit Policy and Oversight (OAIG(APO)), issued report no. APO 87-007, dated April 27, 1987, Subject: Report on Oversight Survey of Internal Review Activities. That report provided comments that internal review was a decentralized resource of the local commanders. It further noted that overall component internal review programs had improved substantially in recent years. Also, the report pointed out that despite improvements, further actions were required to enhance the effectiveness of internal review and to improve its overall value as an important resource of commanders for self evaluation. The OAIG(APO) report versus this draft report appears to differ significantly in regards to subject matter expertise in the distinction of audit organizations versus internal review organizations.

We also take exception to the statement that the standard for independence was violated by the misuse of personnel from four activity field offices to perform accounting functions at two field activities. We do not agree that there was a violation committed by three of the four identified activity field offices. In these instances, the auditors reconciled contract obligations for contracts to be sent to the newly established DLA Finance Center (DFC), Columbus, OH. Thus, the individual auditor would not be in a position to review those accounting records in the future. Also, the Agency Comptroller was appropriately informed concerning this situation as he issued the Planning Decision Document No. 7. The document stressed that the auditors would perform the assigned tasks in an auditing capacity. However, we agree that there was a violation of auditor independence in the cited example of auditors that assisted the Defense Fuel Supply Center Comptroller in implementing an accounting system. The Headquarters Internal Review staff has issued additional guidance to preclude such a situation from recurring.

The audit report stated that the Internal Review auditors were restricted from performing their audit mission because of undue influence of activity Commanders. The audit report did not provide any substantiated examples. We are not aware of any Commander who in fact did this. It is not an impairment of the Internal Review function if an activity Commander restricts the number of staff auditors because of limited resources. Furthermore, it is not an uncommon practice for an audit organization to limit the scope of an audit as a result of travel funding restrictions.

The report cites that the DLA Comptroller assigned and recommended assignment of personnel with no prior audit experience and inadequate knowledge of auditing to the Internal Review activities. An opportunity arose when the Accounting and Finance functions transferred to the DFC. Some personnel elected not to transfer with the functions so an opportunity existed to retain their expertise within DLA. It was not an unrestricted assignment of personnel; rather, personnel who had accounting experience were retrained as auditors. Considering the limited number of auditors available for hire, we took advantage of an opportunity to utilize personnel at the lower grades who could be trained and gain on-the-job auditing experience. (As a beneficial by-product, we did not have to involuntarily separate these people.) In addition, it is difficult to reconcile this finding with other comments that DLA did not adequately staff the function. We suggest this portion of the finding be

deleted. The portion of the finding that addresses the headquarters IR organizational alignment should also be deleted. That issue was addressed and dismissed by the GAO in 1987 after they considered the Department's position. The GAO report was provided to the auditors but it is not adequately discussed in the draft report. We recommend that anyone associated with this review read it carefully. Should you choose to leave this finding and recommendation in the final report, we recommend the report be significantly rewritten to adequately address the fundamental issues of the missions and roles of the DoD IG and DLA Internal Review organizations as they exist today and as you would recommend they exist. Such discussion must also include analysis and recommendations as to the proper alignment of resources between the organizations. The draft report is silent on these issues and thus oversimplifies the matter by focusing on the 'independence' issue only.

In 1976, the DLA (then Defense Supply Agency, (DSA)) Auditor General organization, with 150 people, was absorbed by the Defense Audit Service (DAS). DAS agreed to provide the same level of audit service but never did. In 1987, DAS became part of the DoD IG organization. (In 1983, at the direction of Congress, the DLA IG, in excess of 100 military/civilian workyears, was transferred to the DoD IG organization.)

The DoD IG, then, was designated and staffed as the internal audit organization for DLA. However, there was a shortage in internal audit coverage provided to DLA (primarily in the 'housekeeping or administrative' function areas, according to a previous AIG (Auditing)). Accordingly, DLA, with approval of the then DoD IG, set up the DLA Internal Review organization with the functions and reporting channels that exist today. Given the mission of the HQ DLA Internal Review organization, its reporting channel is a managerial decision properly made by the Director, DLA.

However, times, people, and philosophies change and the current DoD IG may wish to revisit the whole arrangement. However, any decision to change (expand) the mission of DLA in relation to the DoD IG organization should include a transfer of resources back to DLA. This is particularly important now since recent DMRDs have mandated a reduction in the size of HQ DLA.

In addition, these issues are particularly germane to the recent DMR scoping paper Consolidation of the Internal Audit Function which asks the question "Should action be taken to consolidate the service and IG organizations responsible for Internal Audit?" Extension of the logic of the draft report leads to the conclusion that such a consolidation would only result in growth of staffs and duplication of efforts in the DoD IG and Service organizations.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.

(Rationale must be documented and maintained with your copy of the response.)

- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION A.1: We recommend that the Director, Defense Logistics Agency provide the Internal Review Activity at Headquarters the authority to review and approve all audit plans developed by the Internal Review Activity field offices, to verify that audit plans meet standards set by the General Accounting Office and DoD and that proposed audits in the plan show evidence of potential monetary or other benefits.

DLA COMMENTS: Partially concur. We concur with the statement in the recommendation that the HQ DLA Internal Review Activity should review audit plans for compliance with standards set by GAO and DoD. We nonconcur with that portion which states the HQ DLA Internal Review Activity should approve the plan. The PLFA commanders have the authority to include what they want in the plans.

DLAM 7000.7 is currently being revised to reinforce and reemphasize existing guidance for preparing audit plans to comply with the criteria established in DoD 7600.7-M. It will specify that potential monetary or other benefits will be included in the audit plan.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- (X) Action is ongoing; Final Estimated Completion Date: 31 Jan 91
() Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401
PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION A.2: We recommend that the Director, Defense Logistics Agency require the Internal Review Activity to evaluate audits where findings were not reported or developed, and where reports were not issued (Appendix C) to determine if those issues should be reopened.

DLA COMMENTS: Concur. A letter was sent to the appropriate Internal Review Chiefs requiring them to evaluate the audits identified in the audit report. Also, the Headquarters staff will evaluate the identified centrally directed audits. Furthermore, the audit supervisor's review checklist will be reemphasized to ensure that all findings not included in reports are adequately justified in the working papers with details and rationale for such actions.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are experiencing the deficiency cited above and will be involved in implementing the above corrective action:

<u>PSE/PLFA</u>	<u>SPECIFIC ACTION TO BE TAKEN</u>	<u>MILESTONE PLAN</u>
DCMR-BOS, DCMR-ATL, DCMR-CHI, DCMR-STL, DCMR-LA, DCSC, DESC, DGSC, DRMS	Implement Recommendation	31 January 1991
DLA-CI	Evaluate centrally directed audits	30 June 1991

☒ The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

DCMR-PHI, DCMR-CLE, DCMR-DAL, DCMR-NY, DISC, DFSC, DPSC, DASC, DFC, DIPEC, DLSC, DNSC, DSAC, DTIC

DISPOSITION:

(X) Action is ongoing; Final Estimated Completion Date: 30 June 1991
() Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS: .

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION A.3: We recommend that the Director, Defense Logistics Agency provide training to the supervisors of the Internal Review Activity on the audit standards contained in the DoD 7600.7-M, "Internal Audit Manual," with emphasis on planning and supervising audits.

DLA COMMENTS: Concur. We will identify all supervisors who have not had training on the audit standards contained in DoD 7600.7-M. DoDD 7600.2, "Audit Policies," provides that actual training is the responsibility of the central audit agency. We will submit the list of DLA personnel to the IG to include in their scheduled training.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- (X) Action is ongoing; Final Estimated Completion Date: 31 Jan 91
- () Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION A.4: We recommend that the Director, Defense Logistics Agency establish procedures and policies in Defense Logistics Agency Manual 7000.7, "Internal Review Audit Manual," that require performance of quality assurance reviews in accordance with the standards contained in DoD 7600.7-M.

DLA COMMENTS: Concur. The DLA Internal Review Program has procedures and policies for performing quality assurance reviews in accordance with the Standards. We are in the process of improving these procedures and policies and will incorporate the changes into DLAM 7000.7.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

field offices.

- (X) Action is ongoing; Final Estimated Completion Date: 31 Jan 91
() Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
(X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL: .

TYPE OF REPORT: . AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION A.5: We recommend that the Director, Defense Logistics
Agency require the Internal Review Activity field offices to respond to
quality assurance reports, and establish a follow-up system to ensure that
corrective action on the quality assurance reviews was made.

DLA COMMENTS: Concur. The DLA Internal Review Policy and Analysis Branch
will require the Internal Review Activity field offices to respond to
quality assurance reports. These changes will be incorporated into the
procedures and policies referenced in our response to recommendation 4.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are not experiencing the
deficiency cited above but would benefit by receiving an information
copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- ☒ Action is ongoing; Final Estimated Completion Date: 31 Jan 91
- ☐ Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ☐ Nonconcur. (Rationale must be documented and maintained with your
copy of the response.)
- ☒ Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the
response.)
- ☐ Concur; weakness is material and will be reported in the DLA Annual
Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION A.6: We recommend that the Director, Defense Logistics Agency require the Internal Review Activity at Headquarters to establish minimum staffing and resourcing levels for all Internal Review Activity field offices, and implement these standards.

DLA COMMENTS: Nonconcur. We have developed recommended staffing levels. However, under the provisions of DoDD 7600.2, paragraph F.2, "the DoD Components may establish internal review organizations to provide local commanders with an internal audit capability to resolve known or suspected problem areas and operational deficiencies and to supplement the audit services provided by the cognizant internal audit organization", the extent to which the organizations are staffed (under limited financial availability) is up to the local commanders as they weigh conflicting priorities.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

[X] The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

() Action is ongoing; Final Estimated Completion Date:

(X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

(X) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

() Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)

() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION A.7: We recommend that the Director, Defense Logistics
Agency require Headquarters Internal Review to report to the Director or
Deputy Director.

DLA COMMENTS: Nonconcur. This recommendation should be dropped from the
final audit report. This issue was raised and resolved by GAO. The GAO
made an audit of DLA operations, "Follow-Up on the Management Review of
the Defense Logistics Agency", between October 1986 and September 1987
that included a similar recommendation. GAO deleted the recommendation
after considering DoD's comment and determining that such an action could
result in a duplication of audit effort. This above information, with
related documentation, was provided to the IG auditors early in their
audit.

No mention was made in the draft audit report that the structure of the
internal review organization was established with the full concurrence of
the IG, DoD. Considering that both the Assistant Inspectors General for
Audit and Inspections, DoD have increased their review coverage, we
believe that the establishment of a DLA centralized internal review
organization would result in a duplication of effort unless resources
transferred from DLA to the DoD IG were returned to DLA.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

X: The following PSE(s) and/or PLFA(s) are not experiencing the
deficiency cited above but would benefit by receiving an information
copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
- (X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- (X) Nonconcur. (Rationale must be documented and maintained with your
copy of the response.)
- () Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the
response.)

() Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401
PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

FINDING B: Verification of Corrective Actions - The Defense Logistics Agency (DLA) did not have an effective verification program to ensure that corrective actions recommended in external and internal audit reports were implemented and internal control weaknesses reported in Annual Statements of Assurance were corrected. Followup focal points at field activities did not monitor recommendations made in external audit reports, and did not verify that activities had actually taken the corrective actions they reported. The Activity had not verified that corrective actions were actually taken on 77 recommendations made in 23 General Accounting Office (GAO) and Inspector General (IG), DoD audit reports; on 6 recommendations in 2 of the Activity reports; and on internal control weaknesses reported in its Annual Statements of Assurance. As a result, DLA could not provide assurance that deficiencies addressed in GAO; IG, DoD; and the Activity reports were actually corrected, and that internal controls were functioning as required by the Federal Managers' Financial Integrity Act of 1982.

DLA COMMENTS: Partially concur. Physical verification prior to 17 Nov 88 was performed on a selective basis, at the discretion of each PLFA commander. A sampling of PLFAs was done on 2 Jul 90. Twelve of the PLFAs reported that they had been actively involved in 547 audit and inspection cases and physically verified 853 recommendations, of which 44 had status changes and 41 were submitted to PSEs. However, HQ DLA did not ask for any verification results prior to 1 Jan 90. On that date, DLA-CI began asking for 100 percent physical verification by the PSEs on actions considered complete since 17 Nov 88. We only report to AIG(AFU) where status has changed on cases that AIG(AFU) is following up. Once verification results are in, AIG(AFU) will be notified as appropriate.

We would like to explain our process of action "considered" complete. DLA-CI does not have records in its data base designated as complete. Once verified, records will be changed from action "considered" complete to action "verified" complete. In order to clarify our program, we will insert "action considered complete (pending results of physical verification)."

We support the requirement to perform physical verification on internal management control (IMC) material weaknesses. We have issued guidance requiring that, with the FY 90 Annual Statement of Assurance, completed material weaknesses will be annotated with the organization that will perform physical verification and the date it will be done.

The audit has misstated the statement of reasonable assurance required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The statement of reasonable assurance provides that the necessary measures have been taken to ensure that the evaluation of the system of internal control has been conducted and that the results indicate that the system of internal accounting and administrative control, along with other

mechanisms in effect, taken as a whole, provides reasonable assurance that the objectives of the FMFIA were achieved. Support for the DLA statement of reasonable assurance comes from managers throughout DLA performing risk assessments, internal management control reviews (IMCRs), and alternates, (i.e., IG Audits and Inspections, Quality Assurance Reviews, Staff Assistance Visits, etc.). The Defense Logistics Agency performed 3,388 risk assessments, 2,638 IMCRs, and 1,056 alternate IMCRs during FYs 88 and 89. Therefore, the last sentence in this finding should be changed to read, "As a result, DLA could not provide assurance that all deficiencies addressed in GAO, IG, DoD, and the Activity reports were actually corrected."

The section of the finding titled "Activity Verification" includes a paragraph that indicates the auditors could not identify any reports prepared that indicated verification was accomplished on corrective actions initiated for GAO, DoD IG, and the Activity reports, or on reported internal control material weaknesses identified by the internal management control program. This statement is not true. DISC-DI specifically provided the auditors with their internal review report on the physical verification of OIG Report No. 84-023, 19 Dec 83, Practices Used to Select Transportation Cost Factors in the Procurement of Volume-Lot Commodities. This same verification was required and performed at DCSC. Also, the IG, DoD in audit report no. 89-031, dated 17 Nov 88, acknowledged that the DLA internal review staff performed a review to determine if the Agency took corrective actions in response to the IG, DoD prior audit on the DoD Parts Control Program. The IG auditors were provided with copies of the DLA Internal Review Parts Control Program followup report. We are calling your attention to these deficiencies in this draft report. DoD 7600.7-M provides the following:

"...1. Accuracy and Adequacy of Support. The audit report shall present factual data accurately and fairly, report results impartially, and include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditor's working papers. One inaccuracy in a report can divert attention from the substance of a report. The use of statistical methods in projecting audit results is encouraged. In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. However, once the condition is adequately supported, additional detailed supporting data need not be included in the report. Only findings which are substantive in relation to the size and nature of the activities or programs audited should be included in the report..."

Also, DLA did conduct verification of internal review reports corrective actions for the 6 month period ending 30 Sep 89. The information presented in your draft report is incorrect and was apparently not verified. The major reason that DLA did not report actions completed in our 30 Sep 89 report was due to the last minute revision of DoDD 7650.3 dated 5 Sep 89 and reporting time constraints. As a result of this, we elected, after discussions with the AIG(AFU), not to submit information for verification of completed actions for internal review reports.

The failure to accurately report the factual data in this instance indicates that there might be other misrepresentations of fact. We are not in a position to have all the supporting data used by the auditors in this report verified at each of the activities visited.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION B.1.a: We recommend that the Director, Defense Logistics Agency require the Defense Logistics Agency Internal Review Activity to provide the Comptroller, Defense Logistics Agency and the Assistant Inspector for Analysis and Followup, DoD with copies of audit reports, for the prior 2 years, that indicate instances of noncompliance with agreed-upon audit recommendations in General Accounting Office; Inspector General, DoD; and Defense Logistics Agency Internal Review Activity audit reports.

DLA COMMENTS: Concur. We are complying with the requirement, as evidenced by the attached example. As of today, we have no records of instances of noncompliances for the last 2 years with GAO or IG DoD reports. We will provide any instances of noncompliance that we find on those cases where the AIG(AFU) is conducting followup.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ No other activity involvement.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
- (X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

ATTACHMENT

Inter-Office MemorandumIN REPLY
REFER TO DLA-CI

S: 25 Jun 90

27 FEB 1990

SUBJECT: Physical Verification

TO: DLA-A

1. The Internal Review Division, Oversight & Analysis Branch, Office of the Comptroller, has the responsibility for ensuring the effective execution of the DLA Followup Program which includes 100 percent physical verification of all corrected actions completed since 17 Nov 88 as directed by General Russo (Encl 3).
2. According to our records, corrective actions listed in Encl 1 are under your cognizance and must be physically verified. DLAR 7600.11, dated 12 Jan 90, contains guidance for physical verification and was discussed at a HQ DLA Point of Contact meeting held on 12 Feb 90. Although all items must be verified, it is suggested that the guidance in the Internal Review Audit Manual, DLAM 7000.7, Chapter 6 for audit verification be used in setting priorities where there is a large number of items to verify. The results of your verifications, using the format at Encl 6 of DLAR 7600.11, should be reported to DLA-CI by 25 Jun 90.
3. At Encl 2 we have enclosed a PSE and PLFA listing of Followup Officials and Focal Points to assist you in contacting appropriate officials should the need arise. If any additional information or assistance is needed, please call Liz Chronister on 274-4733.

3 Encl

Stephen J. Zavada, Jr.
STEPHEN J. ZAVADA, JR.
Chief, Oversight & Analysis Branch
Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION B.1.b: We recommend that the Director, Defense Logistics Agency require the Defense Logistics Agency Internal Review Activity to provide the Comptroller, Defense Logistics Agency with copies of Defense Logistics Agency Internal Review Activity audit reports for the prior 2 years that indicate instances of noncompliance with agreed-upon internal control deficiencies.

DLA COMMENTS: Nonconcur. This recommendation is confusing in relation to the finding. The references are ambiguous and we have interpreted several possible courses of action. Accordingly, we request that you clarify how this recommendation relates to the finding or delete it from the report.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ No other activity involvement.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
- (X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS: None

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- () Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

FORMAT 12 OF 14

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION B.1.c: We recommend that the Director, Defense Logistics Agency require the Defense Logistics Agency Internal Review Activity to provide the Comptroller and the Assistant Inspector General for Analysis and Followup, DoD a listing of agreed-upon General Accounting Office; Inspector General, DoD; and Defense Logistics Agency Internal Review Activity audit report recommendations for which corrective action has been verified as complete by Internal Review Activity during the past two years.

DLA COMMENTS: Concur. HQ DLA started physical verification in January 1990. We are in the process of reviewing the reports on physical verification. As reviews are completed we will provide the listings requested per our agreement with AIG(AFU).

See Recommendation B.1.a and B.1.b regarding Internal Review Reports.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

X: No other activity involvement.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
- (X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review Activity at the Defense Logistics Agency (Project No. 9FC-0027)

RECOMMENDATION B.1.d: We recommend that the Director, Defense Logistics Agency require the Defense Logistics Agency Internal Review Activity to determine and budget, with approval of the Defense Logistics Agency Director, the amount of annual audit time to expend on verification of corrective actions for audit reports and material internal control weaknesses.

DLA COMMENTS: Nonconcur. The Internal Review Activity performs physical verification as part of their function, and reporting the time spent on these actions to the Director is not practical. We have procedures in place for physical verification and the procedures require PLFAs to devote and plan their resources accordingly. We believe this recommendation should be deleted from this report.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

☒ The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- ☐ Action is ongoing; Final Estimated Completion Date:
- ☒ Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- ☒ Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- ☐ Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
- ☐ Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401

COORDINATION:

PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Internal Review
Activity at the Defense Logistics Agency (Project
No. 9FC-0027)

RECOMMENDATION B.2: We recommend that the Director, Defense Logistics Agency require the Comptroller, Defense Logistics Agency to periodically report to the Director, Defense Logistics Agency and the Assistant Inspector General for Analysis and Followup, DoD; on the number of corrective actions for audit report recommendations and material internal control weaknesses that the Defense Logistics Agency Internal Review Activity verified and reported on; and the actions taken on each identified deficiency in reported corrective actions.

DLA COMMENTS: Partially concur. As agreed, DLA will report to AIG(AFU) any actions where status has changed due to the results of physical verification on those cases the AIG(AFU) is conducting followup. We will continue to selectively report, rather than periodically, to the Director and the Comptroller on significant status changes.

Information is already submitted to the AIG(AFU) for internal review reports during our semiannual reporting in accordance with DoDD 7650.3.

The DLA Annual Statement of Assurance already identifies the corrective action taken for each material weakness. Also, beginning with the FY 90 Annual Statement, completed material weaknesses will be annotated with the organization that will perform physical verification and the date physical verification will be performed. The DoD IG receives a copy of the DLA Annual Statement of Assurance each year.

ACTIVITY INVOLVEMENT:

[This information will not be distributed outside of DLA.]

[X] The following PSE(s) and/or PLFA(s) are not experiencing the deficiency cited above but would benefit by receiving an information copy of the report/observation and all applicable updates.

All PLFAs

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:

- () Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

- (X) Concur; however, weakness is not considered material.
(Rationale must be documented and maintained with your copy of the response.)
- () Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Lawrence P. Dulong, Jr., DLA-CIR, 274-5401
PSE REVIEW/APPROVAL: Richard J. Connelly

DLA APPROVAL:



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



IN REPLY
REFER TO

DLA-C

10 SEP 1990

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Oversight Review of Defense Logistics Agency Internal
Audit Followup Tracking and Verification Processes

Enclosed are comments on the Oversight Review done by the
Office of the Assistant Inspector General for Analysis and
Followup.

As requested in your 2 July 1990 memorandum to me, I have given
both this and the draft report on the Audit of the Internal
Review Activity at the Defense Logistics Agency (Project No.
9FC-0027) my personal attention. As a result, I am
establishing a panel consisting of senior DLA management
officials to review the entire Internal Review process to
include the role of DLA vis-a-vis that of the DoD IG
organization. This panel will report its findings to me by
1 April 1991.

1 Encl

Charles McCausland

CHARLES MCCAUSLAND
Lieutenant General, USAF
Director

MRS. CRAWFORD

*THIS IS A LONG STANDING/SERIOUS PROBLEM.
I WANT TO GET IT FIXED PERMANENTLY. I BELIEVE
THE PANEL CAN DO THIS - I THINK IT IS WORTH THE
TIME SO WE WON'T HAVE TO REVISIT AGAIN.*

Sincerely

Charles McCausland / Sgt.

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**SUMMARY OF POTENTIAL MONETARY
AND OTHER BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
A.1.	Economy and efficiency. Ensure that audits provide monetary benefits and identify significant internal control weaknesses.	Nonmonetary.
A.2.	Economy and efficiency. Allow management to correct deficiencies identified in prior Internal Review audits.	Nonmonetary.
A.3, A.4., and A.5.	Economy and efficiency and compliance with regulations. Improve the supervisor's ability to manage and plan audits. Also, ensure that audits are planned, performed, and reported in accordance with DoD Standards, and that deficiencies identified by Internal Review are reported and corrected.	Nonmonetary.
A.6.	Economy and efficiency. Ensure that field commanders provide adequate resources, personnel, and travel funding to conduct audits.	Nonmonetary.
A.7.	Internal controls and compliance with regulations. Remove Headquarters Internal Review from impairment so that it can enforce DLA audit policies and DoD audit standards and conduct effective quality assurance reviews and centrally controlled audits.	Nonmonetary.
B.	Internal controls and compliance with regulations. Ensure that Defense Logistics Agency implements corrective actions on findings and recommendations.	Nonmonetary.

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ACTIVITIES VISITED OR CONTACTED

Department of the Army

U.S. Army Training and Doctrine Command, Fort Monroe, VA

Defense Agencies

Defense Logistics Agency Headquarters, Alexandria, VA
Defense Contract Administration Services Region, Atlanta, GA 1/
Defense Contract Administration Services Region, Boston, MA 2/
Defense Contract Administration Services Region, Chicago, IL 3/
Defense Contract Administration Services Management Area,
Indianapolis, IN 4/
Defense Contract Administration Services Region, Cleveland, OH 5/
Defense Contract Administration Services Region, Dallas, TX 6/
Defense Contract Administration Services Region, Los Angeles, CA 7/
Defense Contract Administration Services Management Area,
Van Nuys, CA 8/
Defense Contract Administration Services Region, New York, NY 9/
Defense Contract Administration Services Region,
Philadelphia, PA 10/
Defense Contract Administration Services Management Area,
Baltimore, MD 11/
Defense Contract Administration Services Region, St. Louis, MO 12/
Defense Construction Supply Center, Columbus, OH
Defense Electronics Supply Center, Dayton, OH
Defense Fuel Supply Center, Alexandria, VA
Defense General Supply Center, Richmond, VA
Defense Industrial Supply Center, Philadelphia, PA
Defense Personnel Support Center, Philadelphia, PA
Defense Depot, Mechanicsburg, PA
Defense Depot, Memphis, TN
Defense Depot, Ogden, UT
Defense Depot, Tracy, CA
Defense Industrial Plant Equipment Center, Memphis, TN
Defense Logistics Agency Administrative Support Center,
Alexandria, VA
Defense Logistics Agency Systems Automation Center,
Columbus, OH
Defense Logistics Service Center, Battle Creek, MI
Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Technical Information Center, Alexandria, VA

Non-DoD Activities

United States General Accounting Office, Washington, DC

ACTIVITIES VISITED OR CONTACTED (Continued)

- 1/ Now Defense Contract Administration Services District South
- 2/ Now Defense Contract Administration Services District
Northeast
- 3/ Now Defense Contract Administration Services District
North Central
- 4/ Now Defense Contract Administration Services Area Operation
Indianapolis
- 5/ Now Transition Management Office Cleveland
- 6/ Now Transition Management Office Dallas
- 7/ Now Defense Contract Administration Services District West
- 8/ Now Defense Contract Administration Services Area
Operations Van Nuys
- 9/ Now Transition Management Office New York
- 10/ Now Defense Contract Administration Services District
Mid Atlantic
- 11/ Now Defense Contract Administration Services Area Operations
Baltimore
- 12/ Now Transition Management Office St. Louis

AUDIT TEAM MEMBERS

Nancy Butler, Director, Financial Management Directorate
James McGuire, Program Director
Jack Armstrong, Project Manager
Jim Casey, Team Leader
Eugene Etheridge, Team Leader
Ernest Taylor, Team Leader
Daniel Heck, Auditor
Raheema Shabazz, Auditor
Elmer Smith, Auditor
Evelyn Woods, Auditor
Susanne Allen, Editor

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Non-DoD

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Congressional Committees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
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