# Policy and Oversight Report

## FINANCIAL AND PERFORMANCE AUDITS DIRECTORATE

Evaluation of Program Evaluation and Advisory-Type Services by the DoD Internal Audit Organizations

Report Number PO 97-015 April 18, 1997

Office of the Inspector General
Department of Defense

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Inspector General, Department of Defense
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**Acronyms**

| | |
|---|---|
| AAA | Army Audit Agency |
| NAS | Naval Audit Service |
| AFAA | Air Force Audit Agency |
| OAIG-AUD | Office of the Assistant Inspector General for Auditing |

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

April 18, 1997

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
ASSISTANT INSPECTOR GENERAL FOR AUDITING, INSPECTOR GENERAL, DOD

SUBJECT: Evaluation of Program Evaluation and Advisory-Type Services by the DoD Internal Audit Organizations (Report No. PO 97-015)

## Introduction

We are providing this report for your information and use.

## Evaluation Results

The DoD internal audit organizations performed a proper balance of audit versus nonaudit services. The work accomplished and the procedures followed in performing nonaudit work were adequate.

## Evaluation Objectives

The evaluation objectives were to determine the extent and type of nonaudit work auditors performed and the adequacy of the procedures for performing the nonaudit work. Additional objectives were to determine whether the work was conducted in accordance with applicable Government Auditing Standards and the American Institute of Certified Public Accountants, "Statement on Standards for Consulting Services."

## Scope and Methodology

**Scope and Methodology.** We conducted the work at the Army Audit Agency (AAA), Naval Audit Service (NAS), Air Force Audit Agency (AFAA), and the Office of the Assistant Inspector General for Auditing (OAIG-AUD). We discussed with agency officials the policies and procedures used for nonaudit work and obtained statistical data for FYs 1994 through 1996 on the number of projects completed, products issued, and direct auditor time devoted to nonaudit

work. We also selected and reviewed nonaudit projects' working paper files and final products and, in most cases, discussed the projects with the personnel involved. We found that the major nonaudit work OAIG-AUD auditors conducted was participation by senior personnel on management teams such as Task Forces, Process Action Teams, and Integrated Product Teams. Given the varied nature and products of those assignments, we determined it was not feasible to apply our objectives to that work. Therefore, we performed no further work at OAIG-AUD but have included OAIG-AUD nonaudit work in Enclosure 1. Our work was conducted from November 1995 through October 1996. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

**Termination of Evaluation Work.** At the completion of the evaluation survey, we decided that no additional work was necessary.

## Prior Evaluation and Other Reviews

No evaluations or other reviews have been conducted of the subject area.

## Evaluation Background

Although the AAA, NAS, and AFAA have offered nonaudit consulting-type services to management in the past, they formally announced in FY 1994 (NAS, AFAA) and FY 1995 (AAA) new initiatives in the area. The AAA described its service as "a major new initiative"; the NAS labeled its service a "Capacity Evaluation" and described it as a cooperative effort between NAS and the client. The AFAA labeled its service "Management Advisory Services" and described it as a tailored new "Advisory" service specifically for senior Air Force management. To obtain an overview of this new effort, we included this evaluation in the Office of the Inspector General FY 1996 Annual Plan.

## Discussion

**Type of Nonaudit Work.** The majority of nonaudit work auditors at the AAA, NAS, and AFAA conducted was consulting-type services. Examples of the type of nonaudit work performed include:

**AAA**

o Review Escrow Accounts -- Review management controls over escrow accounts that the U.S. Army Corps of Engineers used in real estate acquisitions because of prior embezzlement of monies in escrow accounts.

o 1997 Presidential Inaugural Support -- Provide support and establish necessary controls to ensure that the Army fulfills its fiscal and stewardship responsibilities for the 1997 Presidential Inauguration.

o Review the Army Ideas for Excellence Program -- Analyze the current process and requirement for the program and identify optional courses of action to improve overall program management.

**NAS**

o Capacity of Commander in Chief, U.S. Atlantic Fleet, Maintenance -- Study intermediate and depot-level ship maintenance processes to provide input into the U.S. Atlantic Fleet's Business Process Reengineering of fleet maintenance.

o Contract Payment Procedures at Personnel Support Detachment Naples, Italy -- Evaluate internal controls at Personnel Support Detachment Naples. (The evaluation led the Commander in Chief, U.S. Navy Europe, and Commander in Chief, U.S. Atlantic Fleet, to jointly request a theater-wide audit of the same issues.)

o Assignment of Auditors to Program Executive Offices -- Provide advice on the overall internal and management control of a particular major systems acquisition, serve as liaison for all related audits, and participate in various major studies efforts. A separate evaluation will address our conclusions concerning these assignments.

**AFAA**

o Air Force Recruiting Service Training Process -- Determine whether recruiter trainees received the correct training to result in a highly trained recruiting sales force.

o Base Closure Real Property Conversion Process of Base Realignment and Closure 1988 and 1991 -- Identify the causes and problems in delaying the base closure real property conversion process for Base Realignment and Closure 1988 and 1991.

o Assistant Secretary of the Air Force (Financial Management and Comptroller) Financial Services Offices -- Participated in a workshop to develop policy and operating procedures for the Air Force Financial Services Offices that would remain after the consolidation of accounting and the departure of the Defense Finance and Accounting Service from Air Force bases.

**Extent of Nonaudit Work.** The AAA performed the most nonaudit work in terms of direct auditor time devoted to that work. From FYs 1994 through 1996, the AAA issued 241 nonaudit products, which varied from formal reports to one-page memorandums with briefing charts attached. During that same period, the NAS issued 23 formal reports. From FYs 1995 through 1996, the AFAA issued 271 nonaudit products consisting of memorandums or briefings. During FYs 1994 through 1996, OAIG-AUD participated on about 35 management teams. A comparison of nonaudit work to total direct time available is in Enclosure 1.

DoD Manual 7600.7-M, Internal Audit Manual, June 1990, requires that the internal audit organizations maintain nonaudit work to 10 percent or less of direct time available. Although the Internal Audit Manual was published in June 1990 and the National Performance Review of 1993 called for more proactive consulting-type efforts by the Inspectors General, we believe the 10 percent figure is still appropriate. Audit work should remain the primary emphasis of the audit organizations. As discussed above, during the review we determined that the audit organizations were generally maintaining nonaudit work at a level below the 10 percent threshold. However, during the staffing process for this report, the Auditor General of the Navy and the Assistant Inspector General for Auditing each expressed disagreement with the threshold. As a result, we will reevaluate the 10 percent limitation during the next revision of DoD Directive 7600.2, Audit Policies.

**Adequacy of Nonaudit Work.** To determine the adequacy of the AAA, NAS, and AFAA nonaudit work, we reviewed several final products and supporting working papers from each organization. In general, the working paper files were excellent for all projects reviewed. They were indexed, initialed and dated, and reviewed by a supervisor. Additionally, cross-referencing was adequate, referencer comments contained adequate responses by the auditor, and, in most cases, an independent referencer had reviewed and commented on the files. The comments were adequately addressed by the auditor. The files also contained a client engagement letter or memorandum and, for most projects reviewed, evidence of client satisfaction with the project results.

**Procedures for Performing Nonaudit Work.** At the time of our evaluation, neither the AAA, NAS, nor AFAA had formal agency-unique written policies and procedures to perform nonaudit consulting-type work. Although no agency-unique policies and procedures were in effect, the practices followed by the audit organizations appeared adequate and in compliance with Government Audit Standards and the American Institute of Certified Public Accountants,

"Statement on Standards for Consulting Services." The AAA stated that it performs consulting-type services in accordance with these standards. The NAS and AFAA had developed draft policies and procedures for conducting nonaudit work that incorporated those standards. Subsequently, the NAS and AFAA have issued formal policies and procedures that address the auditor independence issue and contain the necessary elements to conduct nonaudit work.

## Conclusion

Based on our review, the AAA, NAS, and AFAA written procedures and/or actual practices are adequate for providing nonaudit-type services to management.

## Management Comments and Evaluation Response

Although the report contains no findings or recommendations and, therefore, no written comments were required, the Auditor General of the Navy and the Assistant Inspector General for Auditing provided written comments. The comments focused primarily on retention of the 10 percent limitation on non-audit work. For the full text of the management comments, see Enclosure 2.

We agree that given the results of the National Performance Review and the increasing requests for consulting-type services, we may need to reevaluate the 10 percent limitation. We will include the reevaluation in our ongoing efforts to update and revise audit policy and procedures.

We appreciate the courtesies extended to the evaluation staff. For additional information on this report, please contact Ms. Barbara E. Smolenyak, Program Director, at (703) 604-8761 (DSN 664-8761) or Mr. M. Thomas Heacock, Project Manager, at (703) 604-9103 (DSN 664-9103). Enclosure 3 lists the distribution of this report.

Donald E. Davis

Donald E. Davis
Deputy Assistant Inspector General
Audit Policy and Oversight

Enclosures

# Comparison of Nonaudit Work to Total Direct Time Available

| | Direct Auditor Days | | |
|---|---|---|---|
| Agency | Total Available | Nonaudit Work | Percent |
| AAA | | | |
| FY 1994 | 95,580 | 9,271 | 9.7 |
| FY 1995 | 97,605 | 15,929 | 16.3 |
| FY 1996 | 97,014 | 9,450 | 9.7 |
| NAS | | | |
| FY 1994 | 93,667 | 5,773 | 6.2 |
| FY 1995 | 93,080 | 6,923 | 7.4 |
| FY 1996 | 84,021 | 8,743 | 10.4 |
| AFAA | | | |
| FY 1995 | 135,875 | 2,287 | 1.7 |
| FY 1996 | 123,168 | 5,375 | 4.4 |
| OAIG-AUD | | | |
| FY 1995 | 136,242 | 5,695 | 4.2 |
| FY 1996 | 125,977 | 2,575 | 2.0 |

Enclosure 1

# Department of Navy Comments

DEPARTMENT OF THE NAVY
AUDITOR GENERAL OF THE NAVY
5611 COLUMBIA PIKE
ROOM 506B, NASSIF BUILDING
FALLS CHURCH, VA. 22041-5080

IN REPLY REFER TO
7500
AUD-22
MAR 17 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL (AUDIT POLICY AND OVERSIGHT)

Subj: DRAFT REPORT ON SURVEY OF PROGRAM EVALUATION AND ADVISORY TYPE SERVICES BY THE DOD INTERNAL AUDIT ORGANIZATIONS

1. Thank you for the opportunity to comment on the subject report. While you have not made any specific recommendations we provide the following comments. We believe that the report should specifically define the types of management requests which apply to the 10 percent limit. This would result in a revision to the figures at enclosure (1) and ensure similar data is being compared. Further, it may lead to a revision to the limit itself given the emphasis placed upon nonaudit services implied by the National Performance Review of 1993.

2. Internally, we define nonaudit work as all direct auditor time which does not result in an audit report. For the Naval Audit Service this would include not only consulting-type services but also assist work for investigative organizations or time working on products other than an audit report, e.g. the semiannual report or oversight of CPAs' work. Having a definition would ensure consistency among the DoD audit organizations. Specific information as to what audit work is to be included in any limit should be included in the Defense Internal Audit Manual and perhaps only deal with consulting-type services. I would suggest convening a working group from the DoD audit community to study the concept.

3. Finally, we question the basis and wisdom of a limit of ten percent. There is no logical support for this limit. Given the National Performance Review's thrust of working in a more collaborative manner with management and the current emphasis on customer satisfaction, we believe that if there needs to be a limit, it should be higher than ten percent. Our position is based on the increasing number of requests for consultant-type services over the past year and the current customer satisfaction atmosphere.

Richard A. Leach
RICHARD A. LEACH
By direction

# Inspector General, Department of Defense, Comments

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

February 3, 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL (AUDIT POLICY AND OVERSIGHT)

SUBJECT: Working Draft Report, Project 60A-1001

This memorandum expands upon the verbal comments provided during our discussion earlier this afternoon. We suggest the following changes to the working draft:

-- The title of the report is much broader than its content. The latter addresses only non-audit type work performed by auditors, not all program evaluation and advisory-type services by DoD internal audit organizations. It is very important for the reader to understand the difference.

-- In Evaluation Background, it is stated that "The National Performance Review called for the Inspectors General to broaden their focus from strict compliance auditing to evaluating management control systems. To obtain an overview of this new effort, we included this survey in the Office of the Inspector General FY 1996 Annual Plan." It is unclear what "new effort" is being referred to. Evaluating management controls? Offering nonaudit consulting type services is not necessarily tied to putting more emphasis on evaluating management control systems. Some consulting engagements involve management control systems, but many do not. Furthermore, many audits involve evaluation of management control systems. While we are seeking more upfront involvement in designing controls, we have been assessing them for a long time and such assessments are not new efforts. The simplest way out of this confusion would be to eliminate the two sentences quoted above.

-- The second Army example on page 3 says that the non-audit work was to "provide audit support." I guess this shows the disadvantages of the term "non-audit work."

-- I don't agree with the suggestion on page 4 that the 10 percent limitation be retained. There is very limited discussion of the mater and I suggest that a better forum for exploring the pros and cons would be the group examining what policies should be carried forward from the Internal Audit Manual.

Thanks for the opportunity to provide input.

Robert J. Lieberman
Assistant Inspector General
for Auditing

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