Oversight Report

ARMY AUDIT AGENCY PROCESS FOR DETERMINING AUDIT REQUIREMENTS AND REQUESTING RESOURCES

Report No. PO 99-6-005 May 27, 1999

Office of the Inspector General
Department of Defense

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Acronyms

AAA	Army Audit Agency
GPRA	Government Performance and Results Act

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

May 27, 1999

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on Army Audit Agency Process for Determining Audit Requirements and Requesting Resources (Report No. PO 99-6-005)

We are providing this report for your information and use. Because this report contains no findings or recommendations; no written comments were required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the evaluation staff. Questions on the evaluation should be directed to Ms. Barbara E. Smolenyak at (703) 604-8760 (DSN 664-8760) (bsmolenyak@dodig.osd.mil) or Mr. Thomas Heacock at (703) 604-8756 (DSN 664-8756) (mheacock@dodig.osd.mil). See Appendix B for the report distribution. The evaluation team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. PO 99-6-005 **May 27, 1999**
(Project No. 90A-9008)

Army Audit Agency Process for Determining Audit Requirements and Requesting Resources

Executive Summary

Introduction. The Army Audit Agency is a field operating agency, under the Secretary of the Army, headed by the Auditor General with field offices located throughout the world. According to Army Regulation 36-5, "Auditing Services in the Department of the Army," December 16, 1991, the Army Audit Agency is independent and unrestricted in the selection of audits to be performed, the scope of audits to be undertaken, and in the selection of material to be examined during planning, survey, and audit execution. The mission of the Army Audit Agency is to provide an independent and objective internal audit service to the Department of the Army through an appropriate mix of financial and performance audits. Internal audits by the Army Audit Agency of military commands, installations, or activities are scheduled on a periodic basis determined by the Auditor General.

Objectives. The overall objective of the evaluation was to assess the process for determining audit requirements and for requesting audit resources. We also determined whether the planning process is responsive to management needs and whether policy or resource constraints impair auditor independence. We plan to develop a best practice report based on this review and similar reviews at the Naval Audit Service and Air Force Audit Agency.

Results. The evaluation disclosed no exceptions to the policies and procedures the Army Audit Agency uses to determine audit requirements and request audit resources. In addition, nothing came to our attention to indicate that the Army Audit Agency has any impairment to independence. Since the start of the customer satisfaction program in FY 1993, surveys have shown a steady increase in positive feedback from users of Army Audit Agency reports and services.

Management Comments. We provided a draft of this report on April 12, 1999. The Army Audit Agency advised verbally that they would not respond to the draft report. Because this report contains no findings or recommendations, written comments were not required. Therefore, we are publishing this report in final form.

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Background

Army Audit Agency. The Army Audit Agency (AAA) is a field operating agency, under the Secretary of the Army, headed by the Auditor General with field offices located throughout the world. According to Army Regulation 36-5, "Auditing Services in the Department of the Army," December 16, 1991, the AAA is independent and unrestricted in its selection of audits to be performed, in the scope of audits to be undertaken, and in the selection of material to be examined during planning, survey, and audit execution. The mission of the AAA is to provide an independent and objective internal audit service to the Department of the Army through an appropriate mix of financial and performance audits.

Types of Engagements. There are primarily three types of engagements the AAA performs.

- Financial engagements that focus on Chief Financial Officers Act requirements, such as auditing Army annual financial statements and analyzing performance measurement data;
- Performance engagements that focus on Army primary functions, such as readiness, logistics, and acquisition; and
- Consulting engagements that cover a wide array of subjects from contractor support in Haiti to operation costs in Kuwait and Bosnia.

Scheduling of Audits. The AAA internal audits of military commands, installations, or activities are scheduled on a periodic basis determined by the Auditor General. Audits of major organizations, programs, activities, and functions involved with control or expenditure of significant resources will be done more frequently than routine or lower priority audits. More frequent audits may be performed on request by the Army Secretariat, Army Staff, major commanders or field commanders, or at the discretion of the Auditor General. The Auditor General is the authority for determining the need and timing of audits.

Government Performance and Results Act. The Government Performance and Results Act (GPRA) of 1993 provides for the establishment of strategic planning and performance measurement. The purpose of GPRA is to enhance the confidence of the American public in its Government by improving the effectiveness of its operations and the public accountability of its agencies. The effectiveness and the accountability is to be accomplished by focusing on outcomes rather than outputs, effectiveness rather than efficiency. Because the proposed change to the way Government does its business was so drastic, the Congress provided for pilot projects during which agencies could practice the new approach. The Office of Management and Budget designated the pilot projects from agencies that volunteered. Agencies could volunteer either their entire organization or some function within it. In July 1994, AAA was nominated as a DoD pilot agency. AAA started implementing a Total Quality Management program in FY 1993 and began evaluating major processes to

identify ways to improve services. AAA also developed a long-term strategic plan in April 1994 that focused on major trends and future assumptions that would most likely affect AAA and established the direction for its future.

Objectives

The overall objective of the evaluation was to assess the process for determining audit requirements and requesting audit resources. We also determined whether the planning process is responsive to management needs and whether policy or resource constraints impair auditor independence. We plan to develop a best practice report based on this review and similar reviews at the Naval Audit Service and Air Force Audit Agency. See Appendix A for a discussion of the evaluation scope and methodology.

Determining Audit Requirements and Requesting Audit Resources

The Army Audit Agency (AAA) uses a combination of risk assessments, customer surveys, and priorities established by the DoD-wide joint planning groups for determining audit requirements. A real-time on-line audit scheduling and planning process has replaced the annual published audit plan. The AAA has a specific policy addressing differing review types and independence issues and has sufficient resources to perform mandatory and high priority audits.

Audit Requirements

Traditionally, Headquarters, AAA, requested the regions and external clients to submit written audit proposals once a year. An annual audit plan was then prepared, published, and distributed. However, to better meet their customer expectations, AAA now uses a real-time on-line audit planning and scheduling process.

Customer Survey. To obtain feedback from personnel on the value and utility of AAA services and products, a customer survey was conducted in February 1993. A questionnaire was mailed to AAA customers from the installation level to the Secretariat level, and interviews were conducted with military and civilian personnel. Survey respondents indicated that the planned audits were often of functions that were not current or important to the activity; there was too much of a delay until an audit was finished; and the published audit plan had many changes and, thus, current information was not readily available.

Process Action Teams. Process Action Teams used the results of the customer survey to review the various operations of AAA, including the audit planning and proposal processes. The review of those processes determined that:

- proposals were not discussed with the client and did not address major Army issues,
- proposals lacked potential for producing significant benefits for the client,
- proposals often did not contain adequate audit objectives,
- typical proposals involved less than 4 hours work, and
- a real-time audit scheduling and planning process would better support the AAA vision.

Identifying Audit Requirements. The AAA Program Directors are primarily responsible for identifying audit requirements and developing the audit plan. Based on the identified requirements, the Program Directors prioritize and submit proposals on a continuous basis. There are two cycles to determine audit requirements, short-term and long-term. Short-term requirements (within the next 6 months) mainly result from liaison with AAA customers including planned visits, meetings during audits, and during conferences and seminars. In addition, AAA personnel provide input for short-term requirements. For long-term requirements, AAA relies more on a structured environment with formalized approaches and sources. Examples of approaches and sources used include the following.

- The AAA Strategic Audit Planning Group provides information for planning audits and identifies and provides high-interest areas to AAA management. In addition, the Strategic Audit Planning Group conducts audits of AAA functional areas. The purposes of the audits are to assist the Program Directors in identifying the major dollar areas within the Army budget; to identify management tools useful to the Program Directors; and to identify potential audit issues.

- AAA workload surveys are used to research complex or complicated areas such as mobilization planning, intelligence, and support functions, for the purpose of developing an adequate audit coverage plan.

- The Army Modernization Plan is used to identify those weapon systems that the Army plans to invest in for the future.

- The Congressional Study Book is a management tool that provides information on various concerns of the Congress and states the Army position on a number of subjects that are of interest to the Congress.

- The DoD-Wide Joint Planning Groups are used to determine functional coverage planned by the DoD audit community including the Office of the Inspector General, the Naval Audit Service, and the Air Force Audit Agency.

Schedule of Audits. Instead of a written and published audit plan, a schedule of audits is maintained on the AAA website. The schedule of audits is part of the AAA management information system, or The Agency Management System. When a new audit proposal is entered or a proposal is changed, The Agency Management System automatically updates the schedule of audits. Customers can access the schedule of audits through the AAA website. Information provided in the schedule of audits, among other things, includes the audit title, site location, audit objectives, and the Program Director responsible for the audit.

Audit Resources

Within the AAA, the number of authorized personnel drives the request for audit resources. Traditionally, the AAA Program Directors competed for auditors. However, effective March 1, 1999, AAA is going to functionally (acquisition, financial management, logistics) aligned teams.

Funding. Funding for AAA resources is accomplished via the Program Objective Memorandum process similar to other DoD agencies. Funding for AAA is provided by the Army Headquarters Services-Washington, Resource Services. Table 1 shows that between FY 1995 and FY 1998, AAA execution levels have remained fairly consistent at approximately $50 million per fiscal year.

Table 1. Execution Levels
(in millions)

Account	FY 1995	FY 1996	FY 1997	FY 1998
Payroll	$42.18	$42.40	$42.39	$41.54
Audit Related Travel	4.30	2.92	3.84	3.47
Support Travel	0.16	0.39	0.52	0.23
Training	1.28	0.55	0.86	0.74
Other	3.16	2.86	3.54	3.05
Total	**$51.08**	**$49.12**	**$51.15**	**$49.03**

Payroll accounts for about 84 percent of the AAA budget; therefore, we concentrated on that portion. The AAA is authorized 666 personnel and during FY 1998 was funded accordingly. However, because the AAA was unable to hire, or maintain, a staff at the 666 personnel level, FY 1999 personnel funding was reduced to the equivalent of the on-board strength as of September 30, 1998. In addition, AAA FY 1999 funding operations were cut (travel, training, etc.) to 88 percent of its FY 1998 execution level. The way the AAA requests and receives its audit resources is similar to the way other Federal agencies request and receive resources. As such, we did not find any unusual resource or request problems at the AAA.

Functionally Aligned Teams. Historically, AAA auditors were assigned and reassigned based on the greatest need. On March 1, 1999, AAA established audit teams by functional area. Thus, the exchange of auditors among the Program Directors will be reduced if not eliminated. AAA expects to reduce the learning curve and the time needed to complete audits. AAA also believes the transition to functional audit teams will enable the AAA to provide a more credible and knowledgeable staff to its Army customers.

Customer Satisfaction

AAA has established a planning process responsive to the management needs of the Army. Overall customer satisfaction with AAA has increased since FY 1994 and AAA customers indicate that they are satisfied with the planning process.

Customer Satisfaction Questionnaires. The AAA FY 1997-2002 Strategic Plan includes four goals, one of which was to exceed customer expectations through timely value-added services. The customer satisfaction questionnaire was one of the tools the AAA used to measure progress against this goal and related performance measures in the Strategic Plan. The questionnaire was used to solicit feedback on how well audit and consulting engagements were performed. The questionnaire results allow AAA managers to identify performance strengths, weaknesses, and trends. The AAA has used the customer satisfaction questionnaire since FY 1993. In FY 1997, AAA refined and simplified the questionnaire.

Overall Customer Satisfaction Rating. The AAA Organizational Effectiveness Division maintains the databases used to track and report trend information on customer satisfaction. The databases are updated daily and the ratings, customer comments, and response rates are posted to the AAA Intranet. The overall rating is computed by averaging the ratings in the first five sections of the questionnaire. Those five sections address audit subject matter, timing, benefits of engagement, timeliness of information delivery, and effectiveness of auditors and audit teams. Table 2 shows that overall customer satisfaction has increased since FY 1994.

Table 2. Overall Customer Satisfaction
(Out of a possible 5)

FY 1994	FY 1995	FY 1996	FY 1997	FY 1998
3.66	3.96	4.09	4.16	4.47

Customers. A survey of Army customers revealed positive opinions for the planning process. We discussed the AAA planning process with two major AAA customers. The Director of Assessment and Evaluations, Office of the Assistant Secretary of the Army (Research, Development, and Acquisition) indicated that the AAA has been proactive in determining the audit needs of the Army acquisition community. In addition, personnel from the Office of the Deputy Assistant Secretary of the Army for Procurement indicated that AAA has been very responsive in reviewing major Army issues.

Auditor Independence

Nothing came to our attention to indicate that AAA independence is impaired due to policy or resource constraints. AAA does have a specific policy that addresses different AAA review types and independence issues, and AAA has sufficient resources to conduct mandatory and high priority audits.

Policy Constraints. AAA has a specific policy that addresses different AAA review types. From FY 1995 through FY 1998, AAA has steadily increased its coverage of consulting and requested audits, especially requested audits. Direct auditor days for consulting work in FYs 1995 and 1998 are almost identical at approximately 14,400 direct auditor days. There was a drop in consulting work in FY 1996, but it has steadily increased in FYs 1997 and 1998. Table 3 shows that between FY 1995 and FY 1998, requested work increased from 31,496 auditor days to 44,825 auditor days (42 percent).

Table 3. Requests and Consulting Work
(In auditor days)

Work	FY 1995	FY 1996	FY 1997	FY 1998
Requests	31,496	41,209	42,559	44,825
Consulting	14,257	9,345	11,139	14,511

In 1998, AAA published Regulation 36-68, "Engagement Types," September 1, 1998. The regulation addresses AAA policy for classifying engagements and details standards adopted for consulting services. According to the regulation, AAA does two types of reviews: audits and consulting services. In addition to regular audit engagements, the regulation addresses work requested by a client. Client requests can either be an audit or a consulting service. AAA policy states that for client requests, audit is the first choice. The regulation specifically addresses standards that AAA auditors are to follow when conducting consulting work. The Government Auditing Standards allow the head of an audit organization to apply Government Auditing Standards to other services, such as consulting.[1] As the AAA regulation points out, the Auditor General adopted several standards for consulting engagements, including all the general standards that include independence issues. Thus, AAA has developed a thorough guideline for AAA auditors to follow when conducting requested audits.

Resource Constraints. We did not find any evidence suggesting that resource constraints have had a negative impact on AAA independence. AAA has been able to perform its mandatory audits as required by statute (for example, Chief Financial Officers Act, American Red Cross audits). Similar to most DoD components, AAA has faced resource constraints at the same time as workload growth; however, AAA has sufficient resources to perform mandatory and high

[1] Government Auditing Standards paragraph 2.11.

priority audits. In FY 1998, AAA spent 19,572 direct auditor days out of a total 91,631 days (21 percent) doing statutorily required audits. The rest of the auditor days during the fiscal year were spent primarily on audits requested by the Army and consulting type work.

Conclusion

The evaluation disclosed no exceptions to the policies and procedures the AAA uses to determine audit requirements and request audit resources. In addition, nothing came to our attention to indicate that the AAA has any impairment to independence. Since the start of customer satisfaction program in FY 1993, surveys have shown a steady increase in positive feedback from users of AAA reports and services.

Appendix A. Evaluation Process

Scope and Methodology

We reviewed DoD, Army, and AAA policies and procedures related to the process for determining audit requirements and requesting audit resources. We also reviewed AAA Quality Initiative Papers that described how the planning process has transformed since FY 1993. In addition, we reviewed the AAA automated on-line schedule of audits to determine the capabilities of the schedule. To determine whether the planning process was responsive to management needs, we reviewed customer satisfaction questionnaire data from October 1, 1994, through December 31, 1998. To determine whether policy or resource constraints were impairing auditor independence, we reviewed FY 1995 through FY 1998 budget and workload data. In addition, we reviewed AAA policy related to audit engagement types. With regard to AAA policy, we determined whether the AAA had a policy that specifically addressed independence issues for requested and consulting work. Concerning resource constraints, we reviewed whether the lack of AAA resources might prevent it from performing mandatory or high priority work and thus impair independence. We defined mandatory audits as those that are required by statute (for example, Chief Financial Officers Act, American Red Cross audits).

We interviewed personnel within the Office of the Assistant Secretary of the Army (Research, Development, and Acquisition), the Office of the Deputy Assistant Secretary of the Army for Procurement, and the AAA.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

> **Objective:** Maintain highly ready joint forces to perform the full spectrum of military activities. **Goal:** To maintain a highly ready joint force to perform the full spectrum of military activities by improving force management procedures throughout DoD. **(DoD-5.3)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

> **Financial Management Functional Area. Objective:** To implement GPRA. **Goal:** Establish the framework for integrating GPRA into the DoD Planning, Programming, and Budget System. **(FM-6.2)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Use of Computer-Processed Data. We did not use computer-processed data to perform this evaluation.

Evaluation Type, Dates, And Standards. We performed this program evaluation from November 1998 through February 1999 in accordance with standards issued and implemented by the Inspector General, DoD. The scope of the evaluation was limited in that we did not include tests of the management control program at the AAA.

Contacts During the Evaluation. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Summary of Prior Coverage. No prior coverage has been conducted on the subject during the last 5 years.

Appendix B. Report Distribution

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Evaluation Team Members

The Financial, Performance, and Single Audit Division, Office of the Deputy Assistant Inspector General for Audit Policy and Oversight, DoD, prepared this report.

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