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## Financial and Performance Audit Directorate

### Evaluation of the Acquisition Audit Process

Report Number PO 97-039

July 30, 1997

Office of the Inspector General  
Department of Defense

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### **Acronyms**

AAA	Army Audit Agency
ACAT	Acquisition Category
AFAA	Air Force Audit Agency
DSMC	Defense Systems Management College
GAO	General Accounting Office
IPT	Integrated Product Team
MDAP	Major Defense Acquisition Program
MOU	Memorandum of Understanding
NAS	Naval Audit Service
OAIG-AUD	Office of the Assistant Inspector General for Auditing
PEO	Program Executive Office
PM	Program Manager
PMO	Program Management Office
USD(A&T)	Under Secretary of Defense for Acquisition and Technology



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
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July 30, 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,  
OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Evaluation of the Acquisition Audit Process (Report No. 97-039)

We are providing this evaluation report for your review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3. requires that all recommendations be resolved promptly. Comments for the Auditors General, Department of the Army, Department of the Navy, Department of the Air Force; and Assistant Inspector General for Auditing, Office of the Inspector General, DoD, were partially responsive. We request additional comments on Recommendations A.1., A.2., and A.3. and effective dates when all actions will be completed. We also request that management comment on the Acting Deputy Under Secretary of Defense (Acquisition Reform) suggestion to include Acquisition Category (ACAT) IAM, IAC, and III automated information systems programs in the memorandum of understanding assigning primary audit cognizance to the DoD central internal audit organizations by ACAT. Management comments are required by September 29, 1997.

We appreciate the courtesies extended to the staff. Questions on the audit should be directed to Ms. Barbara Smolenyak, Program Director, at (703) 604-8761 (DSN 664-8761) or Mr. Donald A. Ragley, Project Manager, at (703) 604-8827 (DSN 664-8827). See Appendix E for the report distribution. The evaluation team members are listed inside the back cover.

Russell A. Rau  
Assistant Inspector General  
Policy and Oversight

# Office of the Inspector General, DoD

Report No. 97-039

Project No. 6OA-0038

July 30, 1997

## Evaluation of the Acquisition Audit Process

### Executive Summary

**Introduction.** The report of the House Committee on National Security on the National Defense Authorization Act for FY 1996 directed the Inspector General, DoD, to review the audit functions of the DoD. Specifically, the report directs the Inspector General to conduct a review of the audit functions of the DoD in order to determine whether reductions can be achieved by improvements in prioritizing audits, whether outsourcing can be achieved for major financial audits, and whether consolidation of audit functions can yield savings and improve effectiveness.

**Evaluation Objectives.** The objectives were to evaluate the efficiency and effectiveness of the acquisition audit process, determine whether reductions can be achieved by improvements in prioritizing audits, and determine whether consolidation of audit functions can yield savings and improve effectiveness.

**Evaluation Results.** The DoD audit community has implemented a number of initiatives to reengineer the audit process used for DoD acquisition programs. In many cases, the benefits of those initiatives, such as increased attention on auditor training, are expected to accrue over time. The audit organizations were generally scheduling audits at the appropriate time prior to critical program decisions so as to maximize the benefit of the audit to program management. However, two areas need further improvements.

- o The DoD audit community can enhance audit efficiency and effectiveness and provide more balanced coverage of programs in the three Acquisition Categories (ACATs) specified in DoD directives. Establishing the Office of the Assistant Inspector General for Auditing (OAIG-AUD), Office of the Inspector General, DoD, as the audit organization with primary audit cognizance for all ACAT I programs and assigning the Military Department central internal audit organizations primary audit cognizance for all ACAT II and III programs would decrease the burden on program officials managing the ACAT I, and to a lesser extent, ACAT II and III programs; enable auditors to provide more consistent audit coverage within their assigned areas of audit cognizance related to their assigned ACAT and programs; provide more balanced coverage to ACAT II and III programs; and avoid duplication in audit planning and performance (Finding A).

- o The Military Department central internal audit organizations need to consider their auditors assigned to positions in acquisition program offices as providing nonaudit services and ensure that there are clearly defined roles and responsibilities for those auditors. Further, the Naval Audit Service (NAS) needs to discontinue assigning auditors to acquisition offices as part of the audit process. During temporary assignments, the auditors have not produced audit reports or complied with audit

standards. In addition, assigning auditors to those temporary positions is a perceived impairment of their auditor independence. Alternatively, performance of nonaudit services with established guidelines for auditors in these assignments could fulfill the interests of the acquisition community (Finding B).

o The audit organizations generally scheduled audits at the appropriate time prior to key program events, such as milestones or contract awards. Although there was a need to consider program and contractor performance when planning audits, initiatives to plan audits cooperatively with DoD management can potentially result in audit resources being focused on the highest risk programs. Also, programs that are already experiencing problems tend to receive additional oversight. Therefore, we are not making recommendations to correct these conditions at this time, but will review the effectiveness of these initiatives at a later date.

**Potential Benefits of Evaluation.** Implementation of the recommendations in this report will enhance the effectiveness of the acquisition audit process and reduce the burden on program managers caused by acquisition audits (Appendix C).

**Summary of Recommendations.** We recommended that the DoD central internal audit organizations execute a memorandum of understanding that assigns audit cognizance for ACAT programs and establishes procedures for auditing those programs under this concept. We recommended that the Auditors General provide advice to acquisition program managers through consulting services that follow specific guidelines.

**Management Comments.** The Auditor General of the Navy partially concurred with executing a memorandum of understanding to establish audit cognizance for ACAT programs. The Auditors General of the Army and Air Force partially concurred with executing a memorandum of understanding, however, they want to formalize the current approach being used by the DoD central internal audit organizations which would continue the "status quo." Both imply that their offices must be permitted to audit ACAT programs at their discretion. The Assistant Inspector General for Auditing concurred with executing a memorandum of understanding to assign primary audit cognizance by ACAT, however, his concurrence is contingent on a concurrence by the Auditor General of the Air Force. The Acting Deputy Under Secretary of Defense (Acquisition Reform) strongly agreed with the finding and recommendation regarding assignment of primary audit cognizance and suggested that this approach be extended to major automated information systems - ACAT IAM and ACAT IAC programs, and ACAT III automated information systems programs.

The Auditors General generally nonconcurred with the recommendations to consider auditors assigned to program offices as providing consulting services. However, they all agreed that criteria and procedures should be established for assigning auditors to program offices to provide nontraditional audit services. The Acting Deputy Under Secretary of Defense (Acquisition Reform) supports assigning auditors to program offices to provide advice to program managers. The Assistant Inspector General for Auditing also commented on various parts of the findings and recommendations.

See Part I for a complete discussion of management comments and Part III for the complete texts of the comments.

**Evaluation Response.** The Auditor General of the Navy response to the recommendation that a memorandum of understanding be developed is considered responsive and meets the intent of the recommendation. We do not agree with the Auditors General of the Army and Air Force position that they are required to perform

audit work of all ACAT programs within their respective Service. We find no reason that those audit organizations cannot rely on the audits of another audit organization for accomplishing particular categories of audits, such as for contract audits. The report notes that the audit organizations should be able to perform audits outside the areas of primary audit cognizance where circumstances warrant such action. Moreover, the Auditors General responses for establishing procedures for auditors assigned to program offices to do nontraditional audit work are acceptable and meet the intent of the recommendation. We considered the comments from the Assistant Inspector General for Auditing in preparing the final report. The comments did not demonstrate that the present arrangement has any advantage to assignment of audit coverage by ACATs and specific programs to separate DoD internal audit organizations, which can provide more consistent and effective audit coverage.

We request that the Auditors General of the Army, Navy, and Air Force, and the Assistant Inspector General for Auditing provide additional comments addressing the specific issues by September 29, 1997.

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## **Part I - Evaluation Results**

### Background

The genesis for this evaluation is two-fold: questions about the effectiveness of the audit process the House Committee on National Security raised and specific concerns about the acquisition audit process the acquisition community expressed during its acquisition reform movement.

The FY 1996 National Defense Authorization Act Report of the House Committee on National Security directed the Office of the Inspector General, DoD, to review the audit functions of the DoD to determine whether reductions can be achieved by improvements in prioritizing audits, whether outsourcing can be achieved for major financial audits, and whether consolidation of audit functions can yield savings and improve effectiveness.

To address the Committee's concerns, the Office of the Inspector General, DoD, planned to perform a series of evaluations of audits in functional areas such as acquisition, financial management, and logistics. The objective of these evaluations is to assess use of resources for these audits to identify ways to improve audit effectiveness. This evaluation on the acquisition audit process began February 27, 1996. The scope and methodology for this evaluation are in Appendix A. Before this effort, our office completed a study to determine the feasibility of consolidating acquisition audits and inspections at the Office of the Secretary of Defense level or finding other ways to keep the oversight process effective without it being unnecessarily disruptive or duplicative. The study was conducted because of a recommendation in an Under Secretary of Defense for Acquisition and Technology (USD[A&T]) April 28, 1995, memorandum, "Reengineering the Acquisition Oversight and Review Process," and concluded that consolidation was not desirable, partly due to the uncertain outcome of numerous audit process improvements that were planned or initiated.

### Acquisition Audit and Inspection Study

The April 28, 1995, memorandum recommended that the Office of the Inspector General, DoD, conduct a study to determine whether all acquisition management audits and inspections should be consolidated at the Office of the Secretary of Defense level and to provide the results within 180 days. To perform the study, a group of auditors and inspectors from the Component organizations was formed. In addition, an Executive Advisory Committee of experienced senior acquisition officials was formed to guide and review the group's progress in identifying ways to keep the acquisition oversight process conducted by DoD audit and inspection organizations effective without being unnecessarily disruptive or duplicative. The group interviewed selected members from the original Acquisition Process Action Team, reviewed related studies, identified acquisition audits and inspections performed in the last

3 years, visited selected program management offices (PMOs) to determine management's perceptions of audits and inspections and their burden on PMO personnel, and identified the ongoing initiatives to improve the acquisition audit and inspection process. The interviewed managers were generally concerned about the excessive time program managers expended to support audits, the auditors' lack of knowledge about their programs, and the value of audits performed after major milestone decision dates. However, those interviewed stated that the scope and objectives in the audits of their programs were not duplicated. Interviewees did not favor consolidation of audits, rather an improvement in the audit process. The working group concluded that consolidation of acquisition audits and inspections at the Office of the Secretary of Defense level was not advisable at that time because the audit and inspection community was implementing initiatives (Appendix B) to improve the audit and inspection process. In November 1995, the group briefed the results of its study to the Executive Advisory Committee. The committee members agreed with the conclusions of the study group; however, they believed that effort was duplicative. That is, each audit group reviewing a program required the same fundamental program management and financial documents and needed to receive briefings about the program. As a result, although the study group effort was completed, this evaluation addresses the concerns of the Committee. Concurrent with our review, the Defense Systems Management College (DSMC) surveyed key acquisition managers to determine the amount of burden placed on program offices and to solicit ideas on how to improve the audit and inspection process (Appendix B).

### **Evaluation Objectives**

The objectives were to evaluate the efficiency and effectiveness of the acquisition audit process, determine whether reductions can be achieved by improvements in prioritizing audits, and determine whether consolidation of audit functions can yield savings and improve effectiveness.

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## Finding A. Audit Cognizance

The DoD audit community can enhance audit efficiency and effectiveness and provide more balanced coverage of programs in the three acquisition categories (ACATs) specified in DoD directives. Program management officials generally believe that the acquisition audit process needs to be improved because the effort required to support audits is excessive and because auditors lack knowledge of acquisition programs. In addition, the audit organizations have concentrated the bulk of their efforts on ACAT I programs, even though the largest concentration of programs is at the ACAT II and III levels. The primary cause for these conditions is that the cognizance for auditing ACATs is shared by the DoD central internal audit organizations. By assigning primary audit cognizance for ACATs and specific programs to separate DoD central internal audit organizations, auditors can provide more consistent audit coverage. Coverage would be more balanced in that ACAT I programs would not receive disproportionate coverage. Clearly defined cognizance would also simplify audit planning and avoid duplicative research and performance.

### Acquisition Category Requirements and Statistics

DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs," March 15, 1996, provides guidance on the procedures required to establish well-managed acquisition programs. This guidance defines the acquisition management process, including the designation of ACATs based on size and complexity of the program, provisions for separate reporting for major defense acquisition programs (MDAPs), and requirements for program assessments and decision reviews.

**Acquisition Categories.** Acquisition programs are divided into three ACATs. MDAPs are designated as ACAT I programs. An MDAP is a program the USD(A&T) estimates to require eventual expenditures in FY 1996 constant dollars for research, development, test, and evaluation of more than \$355 million or for procurement of more than \$2.135 billion.

ACAT I programs have two subcategories: ACAT ID for which the milestone decision authority is the USD(A&T) and ACAT IC for which the milestone decision authority is the DoD Component head or, if delegated, the DoD Component Acquisition Executive.

ACAT II programs are those acquisition programs that do not meet the criteria for an ACAT I program, but do meet the criteria for a major system. A major system is a program the DoD Component head estimates to require eventual expenditures in FY 1980 constant dollars for research, development, test, and

## Finding A. Audit Cognizance

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evaluation of more than \$75 million (approximately \$140 million in FY 1996 constant dollars) or for procurement of more than \$300 million (approximately \$645 million in FY 1996 constant dollars).

ACAT III programs are those acquisition programs that do not meet the criteria for ACAT I or ACAT II programs.

**Reporting Requirements.** Numerous reports are required to provide acquisition executives and Congress adequate information to oversee the acquisition process and make necessary decisions. Many of these reporting requirements are applicable only to ACAT I programs, regardless of the ID or IC designation. These reports include the Acquisition Program Baseline, Defense Acquisition Executive Summary, Selected Acquisition Reports, Unit Cost Report, Test and Evaluation Master Plan, Beyond Low-Rate Initial Production Report, Annual Operational Test and Evaluation Report, Contractor Cost Data Reporting, the Operational Requirements Document, and Life Cycle Resource Estimates. Similarly, each of the Components heads and Component Acquisition Executives have the latitude under DoD Directive 5000.1, "Defense Acquisition," March 15, 1996, and DoD Regulation 5000.2-R to develop and supervise the acquisition system within their respective components and promulgate mandatory procedures for their assigned programs.

**Reviews and Oversight.** ACAT I programs are also subject to unique program assessments, decision reviews, and other management oversight that are performed outside the Military Departments. The Requirements Generation System for MDAPs is governed by the Chairman, Joint Chiefs of Staff, Memorandum of Policy No. 77 (superseded by Chairman, Joint Chiefs of Staff Instruction 3170.01, June 13, 1997). These assessments and reviews are conducted by the USD(A&T), Director of Operational Test and Evaluation, Cost Analysis Improvement Group, Joint Requirements Oversight Council, and the Office of the Under Secretary of Defense (Comptroller). In addition, Office of the Secretary of Defense agencies provide oversight of DoD contractors. The Defense Contract Management Command performs contract administration functions and monitors and evaluates contractor performance and compliance with contract provisions and regulatory requirements. The Defense Contract Audit Agency performs all necessary contract audit services and provides accounting and financial advisory services to DoD procurement and contracting activities for the negotiation, administration, and settlement of contracts and subcontracts. These organizations are outside the cognizance of the Military Department central internal audit organizations, complicating their ability to perform comprehensive audits and make meaningful recommendations. Additionally, the Military Department central internal audit organizations do not have audit cognizance for DoD contractors.

**Statistics by ACATs.** The 1995 statistics compiled from the audit organizations and USD(A&T) showed the following programs by ACAT: 111 ACAT I programs; 74 ACAT II programs; and 1,062 ACAT III programs.

## **Finding A. Audit Cognizance**

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### **Audit Coverage by ACATs**

Our review of the 128 acquisition-related reports issued by the DoD central internal audit organizations in FY 1995 determined that 95 ACAT I, 19 ACAT II, and 30 ACAT III programs were reviewed. Some programs were covered in more than one report. For FY 1996 ongoing and planned audits, ACAT I programs were to be reviewed 70 times, ACAT IIs 14 times, and ACAT IIIs 23 times. ACAT I programs are frequently the subject of numerous oversight activities by Congress, including the General Accounting Office (GAO) and the Office of the Secretary of Defense. The ACAT II and III programs represent the highest concentration of programs and are of special interest to Service acquisition managers. These programs are not MDAPs and do not receive the rigorous reviews outlined in DoD Directive 5000.1 at the Office of the Secretary of Defense level. The Air Force Audit Agency (AFAA) and the Office of the Assistant Inspector General for Auditing (OAIG-AUD) concentrated their reviews on ACAT I programs, while the Army Audit Agency (AAA) and Naval Audit Service (NAS) primarily focused their efforts on ACAT II and III programs.

In addition, in FY 1995, the DoD central internal audit organizations expended 197 staff years on acquisition audits, including 124 staff years by the OAIG-AUD (62 percent) for all acquisition categories. Proportionally, this compares favorably to FY 1996 funding for ACAT I programs of \$31.2 billion, which is 65 percent of total ACAT program funding. From our review of these data, we believe that assignment of primary audit cognizance, as recommended in this report, can be accomplished within existing resources in the four DoD central internal audit organizations.

### **Perceived Audit Burden**

The initial study group interviewed program managers at 15 Program Management and Program Executive Office (PEO) organizations. The officials stated and documentation verified a lack of duplication of audit effort in covered areas and objectives. However, some of those officials, as well as the Executive Advisory Committee, expressed concern about excessive burden placed on Program Management Office officials. The burden includes the amount of time spent to provide key program documents and briefings to numerous audit teams, most of which were from different audit and oversight organizations. Although the audit objectives for the various teams were not duplicative, identical general financial and management-type documents were requested for each audit. In addition, program officials provided a program overview briefing to each team.

Several DSMC survey responses (Appendix B) further emphasized the perception of excessive burden. Ninety-nine percent of the respondents believed

that different audit agencies requested duplicate information. In addition, 33 percent of the respondents stated that more than 5 percent of their time in the prior 2 years was spent preparing for and supporting audits. Ten percent of the respondents stated that more than 10 percent of their time was lost for those tasks.

## Management Philosophy for Providing Coverage by ACATs

With the exception of the AFAA, the Military Department central internal audit organizations have concentrated their audit efforts on ACAT II and III programs. The AAA at a Quarterly Audit Scheduling workshop in May 1995 stated:

Historically, both GAO and OAIG-AUD audit have concentrated their weapon system reviews on major weapon system programs. These efforts involve high visibility programs, large funding streams, and a great deal of Congressional interest. As a result, AAA efforts are particularly sensitive to Army managers in times of duplication/overlap, and audit coordination is a very demanding and not always successful characteristic. To maintain a presence and continue assisting PEOs/PMs during this period of military downsizing and declining funding levels, our coverage of Army Research, Development and Acquisition will focus on the Army's non-major systems which will even constitute a larger portion of Army System acquisitions.

The NAS, in an article written by the Auditor General for the May-June 1996 *Program Manager* magazine, stated that "beginning this fiscal year, we no longer schedule audits of ACAT I programs. Our analysis convinced us that sufficient coverage from the GAO and the Inspector General, DoD was already being applied. We do address special-interest items on ACAT I programs if requested by a key Navy client." ACAT II programs are subject to NAS coverage if no other coverage has been provided by GAO or OAIG-AUD or if Navy customers desire specific audit services. For ACAT III programs, the NAS plans a level of effort consistent with the number of such programs, management interest, and level of audit oversight already provided.

The AFAA concentrates most of its audit efforts on ACAT I programs. The audits are managed primarily from its offices at Wright-Patterson Air Force Base, Ohio.

## Access to DoD Acquisition Activities

Currently, the Military Department central internal audit organizations must be granted access to DoD-level acquisition activities. For audits of single

## **Finding A. Audit Cognizance**

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acquisition programs, it is essential to review all aspects of an acquisition program to provide management with a complete assessment of its program. These audits should review both the Military Department and the DoD organizations supporting a program. The Military Department central internal audit organizations need access to DoD organizations that support the acquisition process, such as at the Office of the Secretary of Defense level and various Defense agencies.

### **Coverage Issue**

A chief concern of the acquisition community is the perceived duplicative audit coverage of acquisition programs. Specifically, even though all audit organizations auditing a program may have different objectives, the same program documents and briefings must be provided to each organization. This perceived duplication, coupled with the other concerns raised by the acquisition community, mandates a change in the acquisition audit process. The acquisition audit process has been improved, primarily through the leadership of the Acquisition Program and Contractor Oversight Joint Planning Group. However, a single DoD audit agency should be assigned primary audit cognizance for oversight of each program. Eight-five percent of those responding to the DSMC survey believed that only one audit agency should review each program. There should be fewer but more comprehensive audits at appropriate points in the acquisition cycle. We believe that the separate policies and procedures for MDAPs, coupled with the more extensive involvement of the Office of the Secretary of Defense staff in the programs, permits an assignment of cognizance without an organizational reassignment.

Assigned audit cognizance provides many benefits. Auditors from one audit organization would provide the primary audit oversight; GAO would still perform audits based on congressional requests or on a self-initiated basis. GAO provides systemic coverage that would not be affected by DoD efforts to assign audit cognizance. This approach would reduce the support that program managers would need to provide to auditors and enhance the program-specific knowledge level of those auditors. Also, more coverage could then be provided to the ACAT II and III programs, normally not extensively reviewed by the DoD audit organizations. Since the non-major systems constitute the bulk of the acquisition program inventory, this approach would lead to more balanced coverage of acquisition programs. In addition, the role of the Acquisition Program and Contractor Oversight Joint Planning Group could be reduced because duplication would naturally be avoided due to the separation of audit cognizance.

## Conclusion

The OAIG-AUD is best positioned to assume primary audit cognizance for the ACAT I programs since they are highly visible to DoD management and require intensive DoD acquisition community oversight and reporting. The reporting requirements for ACAT I programs and the Office of the Secretary of Defense level reviews and oversight performed by organizations outside the Military Departments reinforces this position. The Military Department central internal audit organizations do not have cognizance outside the Military Department and do not routinely make recommendations or provide copies of reports to the Office of the Secretary of Defense level, which affects their ability to comprehensively perform ACAT I audits. Cognizance for ACAT II and III programs should be assigned to the Military Department central internal audit organizations. The policy of the AAA and NAS to focus their audit efforts on ACAT II and III programs supports this premise. However, provisions need to be established so the audit organizations can perform audits outside their assigned ACAT to address special requests, resource availability, and other factors. In addition, the OAIG-AUD should facilitate Military Department central internal audit organizations access to DoD activities so those organizations can do comprehensive audits.

A memorandum of understanding between the DoD central internal audit organizations would provide the best mechanism to implement these policies. Furthermore, we suggest that assignment of primary audit cognizance for ACAT I programs begin with the identification of programs on the pre-MDAP list and conclude with the Milestone III decision, or the DoD 5000.2-R transition criteria, if only a lower rate initial production decision is required by the acquisition strategy. In these instances, to transition from a PEO to a commander of a systems, logistics, or materiel command, a program shall, at a minimum, have passed initial operating capability, have achieved full-rate production, and be logistically supportable as planned.

## Recommendations, Management Comments, and Evaluation Response

**A. We recommend that the Auditor General, Department of the Army; Auditor General, Department of the Navy; Auditor General, Department of the Air Force; and the Assistant Inspector General for Auditing, Inspector General, DoD, develop a memorandum of understanding that would:**

**1. Assign primary audit cognizance for Acquisition Category I programs to the Office of the Assistant Inspector General for Auditing and Acquisition Category II and III programs to the Military Department central internal audit organizations.**

## **Finding A. Audit Cognizance**

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**2. Establish procedures for audit organizations to perform audits of programs outside their assigned Acquisition Category.**

**3. State the process for Military Department central internal audit organizations to obtain access to DoD activities for comprehensive audits of acquisition programs.**

**Auditor General, Department of the Army, Comments.** The Auditor General of the Army partially concurred and stated that due to resource limitations, the AAA focus is on ACAT II and III programs. However, the Secretary of the Army does have fiduciary responsibility over all weapon systems the Army manages and funds. As the audit resource for the Secretary of the Army, the AAA must retain the ability to audit any and all Army-managed programs, regardless of ACAT designation. The MOU must provide flexibility for the AAA to audit programs in any ACAT at any time. Furthermore, the Auditor General stated that the MOU would adversely affect auditor independence if it allowed the AAA to audit ACAT I programs only when requested by Army leaders. The Auditor General did not specifically respond to Recommendations A.2. and A.3.

**Auditor General, Department of the Navy, Comments.** The Auditor General of the Navy concurred, stating that the NAS will provide coverage of ACAT I programs only on an exception basis and will coordinate with the OAIG-AUD to avoid potential duplication. Further, establishment of an MOU should assist the DoD internal audit organizations in the planning and performance of acquisition audits and reduce the perception of duplicative audit coverage of acquisition programs. The Auditor General did not specifically respond to Recommendations A.2. and A.3.

**Auditor General, Department of the Air Force, Comments.** The Auditor General of the Air Force partially concurred with Recommendation A.1. and agreed that the audit organizations should avoid overburdening managers with overlapping and duplicative audits. Also, an MOU outlining procedures for coordinating ACAT I program audit coverage should strengthen existing coordination efforts. Further, the AFAA will coordinate with the OAIG-AUD and the Auditors General of the Army and Navy to prepare a memorandum. However, the Auditor General disagreed with assigning primary audit cognizance for ACAT I programs to the OAIG-AUD and believed that shared audit cognizance for ACAT I programs with the OAIG-AUD was the best approach. The Auditor General cited Title 10, United States Code, Section 8014, as the statute that assigns the Secretary of the Air Force responsibility for internal audit in the Air Force. The Secretary has delegated this responsibility to the Auditor General. Further, the Secretary has responsibility for program management and execution. Consequently, the Secretary relies on her internal audit function to provide independent program assessments and recommendations. In response to Recommendation A.2. the Auditor General stated that a response was not applicable based on the response to Recommendation A.1. The Auditor General concurred with Recommendation A.3. and stated that the AFAA already coordinates with the OAIG-AUD to obtain access to DoD organizations and would agree to formally establishing procedures in the MOU.

**Assistant Inspector General for Auditing, Office of the Inspector General, DoD, Comments.** The Assistant Inspector General for Auditing concurred with Recommendation A.1., contingent upon agreement by the Air Force. The Assistant Inspector General for Auditing concurred in principle with Recommendations A.2. and A.3. and stated that primary audit cognizance as a concept does not entail refusing all access by other auditors, but is best described as a right of first refusal. The OAIG-AUD already arranges for access by Military Department auditors to Defense agencies.

**Deputy Under Secretary of Defense (Acquisition Reform) Comments.** Although not required to comment, the Acting Deputy Under Secretary of Defense for Acquisition Reform strongly agreed with the finding and recommendation and stated that assignment of primary audit cognizance will make the most efficient use of the audit resources available. The meaning of primary audit cognizance does not preclude the initiation of special service conducted audits of ACAT I programs when special circumstances warrant. The Acting Deputy Under Secretary also suggested that this approach be extended to major automated information systems - ACAT IAM and ACAT IAC programs and ACAT III automated information systems programs.

**Evaluation Response.** Management comments on Recommendation A.1. are partially responsive. Although agreeing in principle to the development of an MOU, the Auditors General of the Army and Air Force did not agree to the assignment of primary audit cognizance by ACAT. Instead, however, they want to formalize the current approach being used by the DoD central internal audit organizations which would continue the "status quo." Both imply that their offices must be permitted to audit ACAT programs at their discretion.

We do not agree with the Auditors General of the Army and Air Force that they are required to perform audit work on all ACAT programs of their Services and are precluded from relying on the audits of another audit organization. Our recommendations do not affect the authority of the Secretaries of the Military Departments relative to their respective audit functions. In addition, neither the flexibility to audit any ACAT at any time, as stated by the Auditor General of the Army, nor the shared audit cognizance suggested by the Auditor General of the Air Force, meets the intent of the recommendation. Such flexibility or shared cognizance would be contrary to the fundamental purpose of the MOU, which is the assignment of primary audit cognizance by ACAT. However, the assignment of primary audit cognizance by ACAT would not mean that under no circumstances would those audit organizations be involved with ACAT I programs. This report describes circumstances in which it might be beneficial for the Military Department central internal audit organizations to perform an acquisition audit involving an ACAT I program, but such audits would not be routinely scheduled. The recommended approach would also reduce the extent of support that program managers need to provide to auditors, enhance the program-specific knowledge of those auditors, simplify audit planning, and avoid duplicative audit research and performance.

The assignment of primary audit cognizance would not preclude the initiation of audits outside designated ACATs if requested by DoD officials or when special circumstances warrant. However, initiation of audits outside of designated

## **Finding A. Audit Cognizance**

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ACATs must be coordinated with the organization with primary audit cognizance, and there should be a reasonable basis for the audit organization performing the audit rather than relying on the organization with primary audit cognizance. We request that the Army and Air Force reconsider their positions on the assignment of primary audit cognizance and provide additional comments in response to the final report.

Our position on the assignment of primary audit cognizance by ACAT included all ACAT I programs. We agree with the Acting Deputy Under Secretary of Defense (Acquisition Reform) that the assignment of primary audit cognizance by ACAT should be extended to ACAT III automated information systems programs as well. We request that the Auditors General and the Assistant Inspector General for Auditing comment on the Acting Deputy Under Secretary of Defense (Acquisition Reform) suggestion to include ACAT IAM, ACAT IAC, and ACAT III automated information systems programs.

Management comments on Recommendations A.2. and A.3. are partially responsive. The procedures outlined in those recommendations are an integral part of the MOU and are needed to ensure the success of the policy of assigning primary audit cognizance by ACAT. The procedures for audit organizations to perform audits outside their assigned ACATs and the process for the Military Department central internal audit organizations to obtain access to DoD activities need to be formalized. Formal procedures will ensure that the audit organizations can fulfill their audit responsibilities and perform comprehensive audits while achieving the benefits inherent with the assignment of primary audit cognizance by ACAT.

We request that the Army, Navy and Air Force provide comments on Recommendation A.2. In addition, we request that the Army and Navy provide comments on Recommendation A.3.

All requested responses should indicate actions to be taken to implement the recommendations and estimated completion dates.

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## **Finding B. Auditor Assignment to Program Offices**

The Military Department central internal audit organizations did not ensure that there were clearly defined roles and responsibilities for auditors assigned to program offices. Those assignments were initiated to provide auditors with program office experience and to assist program managers. As such, the assignments were more clearly consulting services rather than audit services. The length of assignment and extent of duties varied among the audit organizations. The Military Department central internal audit organizations had not established criteria to ensure the proper use of auditors in those positions. The auditors had not produced audit reports or other tangible products. In addition, the assignment of auditors to temporary positions in the program offices raises questions related to the perceived independence of those auditors.

### **Standards on Auditor Independence**

The Government Auditing Standards require that, in all matters relating to audit work, the individual auditors should be free from impairments to independence and should maintain an independent attitude and appearance. These standards place responsibility on each auditor to maintain independence so that opinions, conclusions, judgments, and recommendations will be both impartial and viewed as impartial by knowledgeable third parties. Auditors must be concerned with whether anything in their situations might lead others to question their independence. All situations deserve consideration because not only must auditors be, in fact, independent and impartial, but also knowledgeable third parties must consider them so.

### **Program Office Assignments**

The Military Department central internal audit organizations implemented programs to provide support to program offices and officials.

**Army Audit Agency.** The AAA had one completed, two ongoing, and two planned developmental assignments in PM and PEO organizations. A GS-12 auditor was assigned to the office of the PM, Comanche, at the U.S. Army Aviation and Troop Command from June through December 1995. The auditor performed various tasks related to costing. A GS-12 auditor was at the PM, Brilliant Antiarmor Submunition, office at the U.S. Army Missile Command. The auditor, on detail from October 1995 through May 1996, served as an action officer on a block improvement in preparation for a milestone review. A third GS-12 auditor was assigned to the PEO, Intelligence and Electronic

## Finding B. Auditor Assignment to Program Offices

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Warfare, office at the U.S. Army Communications-Electronics Command for 6 months, ending in June 1996. The auditor was tasked with identifying savings from acquisition reform.

The AAA also had one auditor assigned part-time to an Integrated Product Team (IPT). A GS-14 auditor began participation on an IPT for the Breacher Mine-Clearing System in March 1996. (Duration of this assignment was undetermined.) The IPT is cross-functional and integrates activities (such as engineering, logistics, and contracting) to develop, field, and sustain a weapon system. The goal is to enable the AAA to be more proactive in decisionmaking.

The AAA planned to place a GS-12 auditor at the office of the PEO, Aviation, at the U.S. Army Aviation and Troop Command, in July 1996. The auditor would perform internal review functions for the PM, Aviation Electronic Combat. Also, the Director of Assessment and Evaluation at the Office of the Assistant Secretary of the Army (Research, Development and Acquisition) requested an auditor for a developmental assignment. The details for this assignment had not been determined at the time of our review.

All assignments have the same overall goal: to enhance the auditors' understanding of PM and PEO operations so that they can audit more effectively. The AAA has not used memorandums of understanding or position descriptions to define the roles and responsibilities of the assigned auditors. The only requirement is that a specific task must be designated for the auditors when they begin developmental assignments. No designated end-products are to result from the assignments. During the assignments, auditors continue to receive guidance, supervision, and evaluations from AAA personnel.

**Naval Audit Service.** The NAS considers the assignment of auditors to PEOs as an integral part of its reengineered acquisition audit process. The NAS began a pilot effort in 1995 by assigning a GS-14 auditor to a PEO in reaction to severe resource reductions and acquisition managers' concerns that auditors need acquisition program office experience to be effective at auditing their programs. In the pilot effort, the auditor served the PEO (Antisubmarine Warfare, Assault, and Special Mission Programs) as liaison for all GAO, OAIG-AUD, and NAS audits and participated in oversight of the PEO acquisition programs. The auditor attended all acquisition strategy sessions, planning meetings, and executive board reviews of PEO programs and advised the PEO on potential program weaknesses. The auditor was evaluated by and reported to the supervisor for acquisition audits at NAS headquarters.

The Assistant Secretary of the Navy (Research, Development and Acquisition) and the Auditor General of the Navy recently agreed that expanding this initiative would benefit both the Department of the Navy and the NAS. Accordingly, the NAS provided full-time auditors to six additional Navy PEOs on 2-year rotational assignments. The NAS believes the PEOs will benefit by having auditors on their staffs to provide advice on the management of assigned acquisition programs and to serve as liaisons between PEOs and other auditors from the GAO; Inspector General, DoD; and the NAS. In their liaison roles, the auditors attempt to minimize duplication of audit effort and provide auditors with information and access to program officials so that disruption to program

## Finding B. Auditor Assignment to Program Offices

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office operations is minimal. The 7 auditors assigned to PEOs represent 18 percent of the 40 auditors that the NAS dedicates to its acquisition audit mission.

**Air Force Audit Agency.** An AFAA GS-13 auditor has been working full-time in the Overarching IPT for the F-22 since the end of 1995. The auditor attends numerous Overarching IPT meetings, including those with the Assistant Secretary of the Air Force (Acquisition). The auditor speaks weekly with the AFAA supervisor. The goal of this auditor's efforts is to help the Air Force as problems arise, rather than after the fact. If the auditor identifies a problem, the auditor will present it to the Overarching IPT and then, depending on the nature of the problem, either assess the problem or work with a team of other auditors to find a solution. If the Overarching IPT agrees with the AFAA solution and takes appropriate action, then the matter is resolved. If not, then the AFAA meets with PM personnel to try to resolve the issue. If the issue cannot be resolved at this level, the AFAA may elevate it to the Air Force IPT or even to the Assistant Secretary of the Air Force (Acquisition). Regardless, the problem identified by the AFAA is documented in a letter to the Program Director for the F-22. At the end of 1996, the AFAA planned to issue a report summarizing all letters issued to the F-22 program office during 1996.

Another auditor sits on an Air Force-level IPT for the F-22. This IPT includes Air Commands and is above the PM level. This IPT meets at least bi-monthly for 1 or 2 days.

The AFAA may expand the concept to other program offices (if the F-22 effort is successful), but only to major programs, due to the limited AFAA resources.

**Auditor Independence.** Although the audit organizations placed auditors in these assignments, the situation lends itself to a perception of a lack of independence. That is, the auditors could be perceived to have:

- o a professional relationship that might cause an auditor to limit the extent of the inquiry, to limit disclosure, or to weaken or slant audit findings in any way;
- o preconceived ideas toward individuals, groups, organizations, or objectives of particular program that could bias an audit;
- o previous responsibility for decisionmaking or managing an entity that would affect current operations of the entity or program being audited;
- o biases that result from employment in a particular organization; or
- o subsequent performance of an audit by the same individual who, for example, had previously done work for an entity or program being audited.

**Criteria for Use of Auditors on Assignment.** The audit organizations had not established criteria to govern assignments to program offices. Many assignments had established periods of time and some had documented details on the objectives of the assignment. However, none of the assignments had

## **Finding B. Auditor Assignment to Program Offices**

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clearly defined criteria to cover such things as the products to be generated; statements of auditor independence, with provisions for separate reporting when indications of fraud, waste, abuse, and mismanagement are found; provisions that the assignee's performance evaluations should not be adversely affected by products generated during the assignment or by acquisition managers; and clear justification that such assignment will not significantly impair the ability of the audit organization to fulfill its acquisition audit responsibilities in accordance with Government Auditing Standards. In addition, no criteria stated that the assignee will not be responsible for making management decisions, must possess technical competence in subject area, must exercise due professional care in the performance of assigned duties, and will provide personal advice versus speaking for the parent audit organization.

### **Survey Opinions on PM Auditor Assignments**

The DSMC surveyed key acquisition managers to assess the acquisition community's perception of the audit and inspection process. A summary of the results of the survey is in Appendix B. Two questions in the DSMC survey solicited opinions on the concept of auditors' participation in program office functions. Fifty-nine percent of the 168 respondents believed that auditors should participate as working-level IPT members. However, only 47 percent stated that the assignment of a single, in-residence auditor to a program office would be beneficial in providing real-time assessments of programs as strategy and the program evolve.

### **Membership on Acquisition Committees**

Each audit organization provides auditors to various acquisition committees established by their Component. For example, the OAIG-AUD has membership on the Acquisition Reform Benchmarking Group and the Acquisition Reform Senior Steering Group. Membership in those groups enables the audit organizations to influence the acquisition process, keep abreast of current acquisition initiatives and program, develop a rapport with key acquisition managers, and determine which areas would be most appropriate for audit.

### **Conclusion**

We are very concerned about the assignment of auditors to program offices. This approach presents a clearly perceived impairment of the independence of those auditors on assignment. Even though the auditors are evaluated by their audit organization, they are still primarily controlled by the acquisition

## Finding B. Auditor Assignment to Program Offices

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managers. Their potential to identify viable issues may be limited by a perception of dual loyalty to the program manager and the audit organization. Also, upon completion of the assignment, compromised independence may be perceived if the auditor is assigned to perform an audit at that program office. This perception could limit the assignment availability of the auditor. Further, no assignment to date has resulted in tangible audit products. Finally, as in the case of the NAS, the auditors on these assignments unnecessarily spend considerable time performing management-type duties, such as gathering data and providing liaison services with outside oversight organizations. The use of auditors in this role wastes valuable audit resources, especially since the DoD audit community is currently facing tight budgets and staff reductions.

Auditors gain valuable knowledge while on these assignments; however, similar knowledge can be obtained through adequate liaison with the acquisition community and membership on key acquisition committees (such as OAIG-AUD current membership on the Acquisition Reform Senior Steering Group). In addition, embracing the single face to management concept will strengthen the knowledge base of each audit organization for the programs for which they have audit cognizance.

We recognize, however, that the Auditors General of the Military Department central internal audit organizations have the prerogative to use their auditors as they deem appropriate, including using auditors in consulting-type capacities. All auditors in audit positions, however, must adhere to the independence and other Government Auditing Standards. Therefore, if the NAS wants to continue to support the acquisition community by using auditors to advise PEOs, the NAS must discontinue including this support as part of its acquisition audit process. Further, if NAS or any other audit organization wants to assist PEOs by providing consulting services to acquisition program offices, it needs to establish criteria to govern those assignments.

## Recommendations, Management Comments, and Evaluation Response

**B.1. We recommend that the Auditor General, Department of the Navy, eliminate the assignment of auditors to acquisition program offices from its acquisition audit process.**

**B.2. We recommend that the Auditor General, Department of the Army; Auditor General, Department of the Navy; and Auditor General, Department of the Air Force; consider their auditors assigned to positions in acquisition program offices as providing nonaudit services. These services are to be based on specific, established criteria including:**

- a. Specific duration of assignment.**
- b. Clear definition of products to be generated.**

## **Finding B. Auditor Assignment to Program Offices**

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**c. Specific scope and objectives of assignment.**

**d. Statement of auditor independence, with provision for separate reporting when indications of fraud, waste, abuse, and mismanagement are found.**

**e. Provision that assignee performance evaluations shall not be adversely affected by products generated during the assignment or by acquisition managers.**

**f. Clear justification that such assignment will not significantly impair the ability of the audit organization to fulfill its acquisition audit responsibilities in accordance with Government Auditing Standards.**

**In addition, the assignee:**

**g. Will not be responsible for making management decisions.**

**h. Must possess technical competence in subject area.**

**i. Must exercise due professional care in the performance of assigned duties.**

**Auditor General, Department of the Army, Comments.** The Auditor General of the Army nonconcurred with considering AAA developmental assignments as consulting efforts. However, the Auditor General stated that he will establish criteria for future developmental assignments by June 30, 1997.

**Auditor General, Department of the Navy, Comments.** The Auditor General of the Navy stated that his concurrence with Recommendation B.2. negates the need to comment on Recommendation B.1. However, in his overall general comments on the report, the Auditor General stated that he would take appropriate action to redesignate the work being done by his auditors at the PEO offices as "consulting." He concurred with the intent of Recommendation B.2. and stated that NAS is in the process of developing a memorandum of agreement with the Principal Deputy Assistant Secretary of the Navy (Research, Development, and Acquisition) concerning NAS site support provided to the Navy acquisition community. The memorandum of agreement will be appended to the individual auditor's performance contract. Such action will emphasize the importance of the criteria and will formally require auditor compliance. Additionally, the auditor will annually provide a formal letter or report to the Director, NAS, addressing specific accomplishments. The NAS will implement this procedure by July 31, 1997.

**Auditor General, Department of the Air Force, Comments.** The Auditor General of the Air Force partially concurred with the recommendation. He clarified that the auditor working in the F-22 program is performing an audit and will issue an audit report. Also, if the AFAA assigns an auditor to a program office in the future, the Auditor General will establish specific criteria to govern the assignment.

**Deputy Under Secretary of Defense (Acquisition Reform) Comments.** The Acting Deputy Under Secretary of Defense (Acquisition Reform) believed that the assignment

## Finding B. Auditor Assignment to Program Offices

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of auditors to PEOs should be supported. The Acting Deputy Under Secretary stated that such an approach is in keeping with the basic principles of acquisition reform and should be continued consistent with the satisfaction of technical requirements within the audit community.

**Evaluation Response.** We consider the management comments responsive. We revised the recommendation to clarify that specific criteria should be established for all nontraditional audit services, not strictly consulting services. The agreement to establish specific criteria to govern these assignments meets the intent of the recommendation.

## **Part II - Additional Information**

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## Appendix A. Scope and Methodology

We performed this review from February through November 1996. We evaluated the 128 acquisition-related reports issued by the DoD central internal audit organizations in FY 1995 and their ongoing and planned acquisition audits as listed in the February 14, 1996, draft of the FY 1996 Joint Plan for Acquisition Programs and Contractor Audits and Inspections. For those efforts, we reviewed, as applicable:

- o audit planning documents,
- o audit objectives and conclusions,
- o audit initiation and completion dates,
- o the timing of the audit in relation to key milestone decision dates,
- o which ACATs were covered by the audit, and
- o previous oversight and conclusions for the programs in the audit.

We assisted the DSMC in developing the survey used to assess program managers' opinions about the acquisition audit process. We used the survey results to assess the acquisition community's perceptions about the current audit process.

We interviewed key DoD personnel responsible for managing and conducting acquisition audits for the DoD central internal audit organizations. Specifically, we obtained their opinions on the current audit process and their organizations' philosophies on detailing auditors to positions in acquisition program offices. See Appendix D for the list of organizations visited or contacted.

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## **Appendix B. Other Matters of Interest**

### **Initiatives to Improve the Acquisitions Audit Process**

The DoD audit community has taken initiatives to reengineer the audit and inspection planning process. These initiatives address concerns about the oversight burden on Defense operations from audits and inspections by the USD(A&T), other key Defense officials, and senior executives in the Military Departments.

In 1993, the heads of the DoD central internal audit organizations (the Audit Chiefs) established a joint planning process to further enhance planning and coordination and to better prioritize and balance audit coverage in key issue areas. In June 1993, the Audit Chiefs approved a joint planning group charter to reflect the enhanced planning and coordination efforts. The charter established 10 joint planning groups to research, plan, and prioritize proposed audit coverage in important issue areas, such as Acquisition Program and Contractor Oversight, Logistics, and Finance and Accounting. The groups have evolved to include inspection organizations and to address projects other than audits and inspections performed by audit and inspection organizations. Joint planning helps ensure that audits, inspections, or other projects complement rather than duplicate each other in scope and objectives. The Acquisition Contractor Oversight Joint Planning Group presently includes representatives from the audit and inspection organizations of the Military Departments; the Office of the Inspector General, DoD; and the Defense Logistics Agency. The GAO is also asked to participate in the planning process. The group publishes an annual DoD Joint Audit Plan for Acquisition Programs and Contractor Oversight Audits and Inspections. The Plan is distributed within the DoD audit and acquisition communities.

One significant goal of this group is to ensure that audit and inspection coverage is balanced and not targeted disproportionately to any particular DoD acquisition program office or function. Another goal is to obtain greater participation from the acquisition community in the audit and inspection planning process. To that end, the group invites key members of the acquisition community to participate in meetings.

In July 1995, representatives of the DoD audit and inspection communities formed a process action team to design and develop a consolidated data base for acquisition and contract audits and inspections throughout DoD. The data base provides a consolidated source of data for the audit and inspection community to use in planning audits and inspections, a means of providing acquisition managers with information about ongoing and planned acquisition audits and inspections, and a tool to facilitate implementing the USD(A&T) suggestions for centrally scheduled acquisition audits and inspections. The data base is an interim system until the internal audit management information system under development becomes operational.

## **Defense Systems Management College Acquisition Management Audits and Inspections Survey**

In an April 28, 1995, memorandum, the USD(A&T) tasked the Director, Acquisition Program Integration, with conducting periodic customer satisfaction surveys to assess the reengineered acquisition process and to identify improvement opportunities. The Director, Acquisition Program Integration, and the Deputy Under Secretary of Defense (Acquisition Reform) commissioned the DSMC to assess the acquisition community's perception of the audit and inspection process. Members of the Acquisition Program Integration, Acquisition Reform, Military Department audit and acquisition organizations, and our office helped to develop a survey questionnaire. The survey was distributed to 106 acquisition program offices. Each office was given five copies. The surveys were to be completed by those individuals who had the most experiences with audits and inspections. Of the 530 surveys distributed, 168 responses (about 32 percent) were returned. In April 1996, the DSMC completed its analysis of the survey results.

The survey results confirmed many negative perceptions identified during the study group review. Overall, the respondents believed that audits could provide greater value to acquisition program managers. Pertinent results of the survey follow.

- o **Relationship with Program Management Offices.** The responses generally indicated that the relationships between auditors and program office personnel could be improved. Sixty percent of the responses indicated that a constructive relationship usually does not exist between the auditor and program management office personnel, and 73 percent stated that auditors report only negative aspects of the program.

- o **Usefulness/Timeliness of Audits.** The responses generally indicated that better scheduling of audits could reduce the burden to program office personnel and would provide more value when performed before key milestones. Eighty-seven percent of the respondents agreed that audits should be event-driven and would provide more value when performed before key milestones. Eight-five percent indicated that the burden to the program management office could be reduced if audits were scheduled at less disruptive times. In addition, only 16 percent believed that audits identified previously unknown issues, and 43 percent agreed that final results were provided in a timely manner.

- o **Experience/Knowledge of Auditors.** Most respondents agreed that auditors lacked sound knowledge of the programs they audited though the respondents were divided when addressing the auditors' knowledge of the overall acquisition process. Sixty-seven percent of the responses indicated that auditors were not generally knowledgeable about the functional area(s) under review, while 69 percent stated that auditors did not usually understand the management controls and processes the PEO and PM use to make decisions. However, 51 percent indicated that the auditors are knowledgeable about the Defense acquisition management process.

o **Auditing Approach.** The respondents perceived that audits caused excessive burden for program managers because of the lack of coordination between audit organizations and the approaches used in auditing acquisition programs. Ninety-nine percent of the respondents believed that different audit agencies often requested duplicate information. In addition, 71 percent stated that audit organizations were not willing to merge their efforts into one review to avoid duplication. Eighty-five percent thought that only one audit organization should review each program. In addition, 33 percent stated that more than 5 percent of their time in the prior 2 years was spent preparing for and supporting audits. Ten percent responded that more than 10 percent of their time was used for those tasks. However, only 45 percent indicated that a single, in-residence auditor assigned to the PEO or PM would be beneficial in performing real-time assessments of a program.

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## Appendix C. Summary of Potential Benefits Resulting From Evaluation

Recommendation Reference	Description of Benefit	Type of Benefit
A.1.-3.	Economy and Efficiency. Reduction of program managers' time needed to support audits, and more balanced coverage of acquisition programs.	Nonmonetary.
B.1.-2.	Economy and Efficiency. Elimination of potential impairments to auditor independence, and more productive use of auditors.	Nonmonetary.

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## **Appendix D. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Office of the Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Acquisition Reform)  
Director, Acquisition Program Integration  
Office of the Under Secretary of Defense (Comptroller)  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation  
Defense Systems Management College  
Office of the Assistant Inspector General for Auditing, Office of the Inspector General,  
DoD

### **Department of the Army**

Office of the Assistant Secretary of the Army (Research, Development and Acquisition)  
U.S. Army Audit Agency

### **Department of the Navy**

Office of the Assistant Secretary of the Navy (Research, Development and Acquisition)  
Naval Audit Service

### **Department of the Air Force**

Office of the Assistant Secretary of the Air Force (Acquisition)  
Air Force Audit Agency

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Acquisition Reform)  
Director, Acquisition Program Integration  
Commander, Defense Systems Management College  
Assistant Inspector General For Auditing, Office of the Inspector General, DoD

### **Department of the Army**

Assistant Secretary of the Army (Research, Development and Acquisition)  
Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Research, Development and Acquisition)  
Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Acquisition)  
Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Non-Defense Federal Organizations and Individuals**

Office and Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations

**Non-Defense Federal Organizations and Individuals (cont'd)**

House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

## **Part III - Management Comments**

# Auditor General, Department of the Army, Comments



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
Office of the Deputy Auditor General  
Acquisition and Force Management Audits  
3101 Park Center Drive  
Alexandria, Virginia 22302-1596

SAAG-AFA

17 April 1997

MEMORANDUM FOR Assistant Inspector General for Audit Policy and  
Oversight, Department of Defense

SUBJECT: Evaluation of Acquisition Audit Process (Project No. 6OA-0038)

1. We have reviewed the subject report and have the following comments on the findings and recommendations.
2. Finding A - Audit Cognizance. The report states the problem is the perceived burden audit places on program manager (PM) offices. The report then states the primary cause of this problem is that cognizance for auditing ACATs is shared by the DOD central audit activities. We believe there were many causes. As Appendix B of the report recognizes, the DOD audit activities have implemented several initiatives to eliminate the burden on program managers' offices. These initiatives include:
  - Establishing the Joint Planning Group on Acquisition and Contractor Oversight and opening the communication lines among the audit and inspection activities.
  - Having quarterly planning and scheduling meetings for the Joint Planning Group to deconflict audit schedules.
  - Establishing a joint data base with information on all recently completed, on-going, and planned audits.
  - Doing joint audits across the services that address DOD and Service concerns.

While these initiatives are new, they are beginning to work. We believe these initiatives will help eliminate the real or perceived burden audit places on PM offices.

SAAG-AFA

17 April 1997

SUBJECT: Evaluation of Acquisition Audit Process (Project No. 60A-0038)

3. Recommendation A. Partial Concur. Due to resource limitations, the Agency's focus is on ACAT II and ACAT III programs. Because of heavy GAO and DODIG coverage of ACAT I programs, we believe we can better serve our client (The Secretary of the Army) by providing audit coverage to ACAT II and III programs. However, the Secretary of the Army does have fiduciary responsibility over all weapon systems the Army manages and funds. As the audit resource for the Secretary of the Army we must retain the ability to audit any and all Army-managed programs regardless of ACAT designation. The memorandum the central audit activities develop must provide flexibility for the Agency to audit programs in any ACAT at any time. Also, the memorandum would adversely affect our independence if it allowed us to audit ACAT I programs only when requested by Army leaders.

4. Finding B - Auditor Assignment to Program Offices. The report accurately describes the assignment of Agency auditors to program offices. That is, they are on developmental assignment to increase their working knowledge of the weapon system acquisition process. We didn't assign auditors to PM offices to generate consulting or audit products.

a. We started these assignments to address PM offices' concerns that auditors don't have the appropriate knowledge to audit their programs. During these assignments the auditors gain knowledge and develop credible working relationships with members of the PEO/PM community. These assignments have helped us provide effective and meaningful audit services to our client. We believe these benefits far outweigh any hypothetical or potential perceived impairment of independence.

b. The Agency also has an auditor acting as a member of an Integrated Product Team (IPT). The goal of this effort is to be proactive and help during the decision-making process. The subject report states that 59 percent of the PMs believed auditors should participate as working level IPT members. Again we believe these benefits outweigh any perceived impairment of independence.

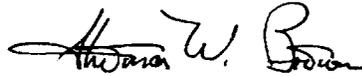
SAAG-AFA

17 April 1997

SUBJECT: Evaluation of Acquisition Audit Process (Project No. 6OA-0038)

5. Recommendation B-2. Nonconcur. We nonconcur with considering our developmental assignments consulting efforts. But, we will establish criteria for future developmental assignments. Government Auditing Standards place responsibility on each auditor and audit organization to maintain independence. We accept that responsibility. The target date for completing the criteria is 30 June 1997.

6. If you have any questions or need additional information, please call Mr. Joseph P. Mizzoni. You can reach him at (703) 681-9593 or DSN 761-9593.



THOMAS W. BROWN  
Deputy Auditor General  
Acquisition and Force  
Management Audits

CF:  
Auditor General, Naval Audit Service  
Auditor General, Air Force Audit Agency  
Assistant Inspector General for Auditing, OIG, DOD

# Auditor General, Department of the 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

21 April 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT  
POLICY AND OVERSIGHT, DEPARTMENT OF DEFENSE

Subj: REPORT ON EVALUATION OF THE ACQUISITION AUDIT PROCESS  
(PROJECT NO. 60A-0038)

Encl: (1) Responses to Draft Report on the Evaluation of the Acquisition Audit Process

Enclosure (1) is provided in response to the subject evaluation. Thank you for establishing a criteria for our use in insuring adherence to GAGAS when our auditors are performing work of a "non-classical" audit nature. I will take appropriate action to redesignate the work being done by our auditors at the PEO offices as "consulting" and ensure a formal Memorandum of Agreement is in place consistent with your counsel.

If you have any questions, please contact Mr. James Peterson at (703) 681-9121 or Mr. Dennis Kocur at (703) 681-9122.

  
RICHARD L. SHAFFER

Copy to:  
UNDERSECNAV  
ASN (RD&A)

Responses to Draft Report on the Evaluation of the Acquisition Audit Process

Naval Audit Service Response to Recommendation A.

Concur. As indicated in the report we believe that sufficient coverage from the General Accounting Office and the IG, DoD is being provided to ACAT I programs and as a result, we no longer schedule audits of these programs. We will provide audit coverage to ACAT II and III programs based on risk assessments and requests by management. We will provide coverage to ACAT I programs only on an exception basis, e.g. requests by upper level Navy management. Initiation of such an audit would be coordinated with OAIG-Audit, DOD to avoid potential duplication of effort. In our view, establishment of your suggested Memorandum of Understanding should assist the Defense internal audit organizations in the planning and performance of acquisition audits and reduce the perception that there is duplicative audit coverage of acquisition programs. Target completion date should be coordinated with the OAIG-Audit and other Service audit organizations.

Naval Audit Service Response to Recommendation B.1.

Our acceptance of recommendation B.2 negates the need to comment on this recommendation.

Naval Audit Service Response to Recommendation B.2.

Concur with the intent of the recommendation. We are in the process of developing a Memorandum of Agreement (MOA) with the Principal Deputy Assistant Secretary of the Navy (Research, Development, & Acquisition) concerning Naval Audit Service site support provided to the Navy acquisition community. The MOA will be appended to the individual auditor's performance contract. Such action will emphasize the importance of the criteria and formally require adherence to it by the individual. Additionally, the individual auditor will annually provide a formal letter/report to the Director, Naval Audit Service addressing specific accomplishments. Target completion date is 31 July 1997.

Enclosure (1)

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# Auditor General, Department of the Air Force, Comments



DEPARTMENT OF THE AIR FORCE  
AIR FORCE AUDIT AGENCY

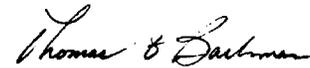
21 APR 1997

MEMORANDUM FOR DOD DEPUTY ASSISTANT INSPECTOR GENERAL,  
AUDIT POLICY AND OVERSIGHT

FROM: HQ AFAA/DO  
1125 Air Force Pentagon  
Washington DC 20330-1125

SUBJECT: Evaluation of the Acquisition Audit Process (Project No. 6OA-0038)

We have reviewed the subject draft report and are providing the attached comments. Please contact me at (703) 696-8026 if you have any questions.

  
THOMAS F. BACHMAN  
Assistant Auditor General  
(Operations)

Attachment:  
Comments, Project 6OA-0038

**DoD/IG RECOMMENDATIONS AND  
AFAA MANAGEMENT COMMENTS**

Recommendation A. We recommend that the Auditor General, Department of the Army; Auditor General, Department of the Navy; Auditor General, Department of the Air Force; and the Assistant Inspector General for Auditing develop a Memorandum of Understanding that would:

1. Assign primary audit cognizance for Acquisition Category I programs to the Office of the Assistant Inspector General for Auditing and Acquisition Category II and III programs to the Military Department central internal audit organizations.
2. Establish procedures for audit organizations to perform audits of programs outside their assigned Acquisition Category.
3. State the process for Military Department central internal audit organizations to obtain access to DoD activities for comprehensive audits of acquisition programs.

AFAA Comments:

A.1. Partially concur. We agree that audit organizations should avoid overburdening program managers with overlapping and duplicative audits. We also agree that a Memorandum of Understanding outlining procedures for coordinating Acquisition Category I program audit coverage should strengthen existing coordination efforts. Accordingly, we will coordinate with the Office of the Assistant Inspector General for Auditing (OAIG-AUD) and the Auditors General of the Army and Navy to prepare a memorandum. However, we do not agree with assigning primary audit cognizance for Category I programs to the OAIG-AUD.

Title 10, United States Code Section 8014, assigns the Secretary of the Air Force responsibility for internal audit in the Air Force. To carry out this function, the Secretary has delegated internal audit responsibility to the Air Force Auditor General. Even though Category I programs are subject to reviews and approvals at OSD, the Secretary has responsibility for program management and execution. Consequently, the Secretary relies on her internal audit function to provide independent program assessments and recommendations.

Because of the separate responsibilities of OAIG-AUD and the AFAA, we believe shared audit cognizance for Category I programs is the best approach. In the Memorandum of Understanding, we will certainly agree to procedures which preclude duplication and provide for selection of the most logical audit organization for a particular review (based on resources, expertise, and access to other related organizations). Coordination between AFAA and OAIG-AUD has worked very well in the past and we are sure this cooperative approach can continue.

The Air Force Assistant Secretary (Acquisition) fully supports the AFAA retaining shared responsibility for Category I program audits. In our view, an audit plan that is carefully developed and fully coordinated (between OSD and Service acquisition officials as well as the various audit groups) is the best solution to ensuring the appropriate types and levels of audit coverage.

A.2. Not applicable based on response to A.1.

A.3. Concur. AFAA auditors already coordinate with the OAIG-AUD to obtain access to DoD organizations (e.g., DISA, DCMC, DFAS). This coordination process has worked well. Nevertheless, we do not object to formally establishing coordination procedures in a Memorandum of Understanding.

Estimated Completion Date: We will coordinate with the OAIG-AUD and the Auditors General of the Army and Navy to determine an estimated completion date.

Recommendation B.2. We recommend that the Auditors General of the Army, Navy, and Air Force consider their auditors assigned to positions in acquisition program offices as providing consulting services. These services are to be based on specific, established criteria including:

- a. Specific duration of assignment.
- b. Clear definition of products to be generated.
- c. Specific scope and objectives of assignment.
- d. Statement of auditor independence, with provision for separate reporting when indications of fraud, waste, abuse, and mismanagement are found.
- e. Provision that assignee performance evaluations shall not be adversely impacted by products generated during the assignment or by acquisition managers.
- f. Clear justification that such assignment will not significantly impair the ability of the audit organization to fulfill its acquisition audit

responsibilities in accordance with Government Auditing Standards. In addition, the assignee:

- g. Will not be responsible for making management decisions.
- h. Must possess technical competence in subject area.
- i. Must exercise due professional care in the performance of assigned duties.

AFAA Comments: Partially concur. If the AFAA assigns an auditor to a program office in the future, we will establish specific criteria to govern the assignment. Thus far, the AFAA has not directly assigned an auditor to a program office. The auditor performing work in the F-22 program was not "assigned" to a program office position. Further, the auditor's work was not consulting services. The following comments address our specific disagreements with observations included in Finding B of the report.

- **Consulting Services.** AFAA disagrees with the DoD/IG conclusion that the auditor was performing consulting services. From the outset, the F-22 project was designed and intended as an audit. The auditor's participation on the Integrated Product Team (IPT) provided firsthand access to program data and decision making and allowed him to make timely recommendations. Furthermore, this approach was consistent with OSD's overall plan for F-22 oversight. This approach was also in line with our goal on all audits – to apprise management "up front" when auditors identify problems. This approach has resulted in markedly improved relations with our clients and timely correction of identified problems.
- **Audit Independence.** AFAA disagrees that F-22 IPT participation results in a lack of independence. We are fully cognizant of the Yellow Book requirements for independence and are ensuring this standard is maintained. From inception, the F-22 Program Director did not attempt to direct the auditor's efforts or influence the audit results. Further, the auditor remained under the direct supervision of the AFAA chain of command at all times.
- **Criteria.** AFAA disagrees that documented criteria for the assignment was not established. The criteria, signed on 18 January 1996, included the duration of the assignment and a statement affirming the auditor's independence. Further, the audit was shown in the midyear update to the Fiscal Year 1996 Audit Plan and the audit objectives were stated in the AFAA's approved Fiscal Year 1997 Audit Plan. AFAA

management clearly communicated to the F-22 Program Office from the outset that the auditor would issue an audit report. The auditor on the F-22 assignment was a Level III Air Force Internal Acquisition Auditor who exercised due professional care during all elements of the assignment.

Overall, we believe our F-22 effort was an innovative approach that served to reduce the audit burden and eliminate the adversarial relationship usually associated with acquisition audits. Further, we are confident this audit fully met audit standards. However, the AFAA Operations Directorate will perform a complete review of the F-22 work papers, audit report, and audit procedures to validate compliance with all applicable standards.

# Assistant Inspector General for Auditing, Office of the Inspector General, DoD, Comments



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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APR 15 1997

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

SUBJECT: Evaluation of the Acquisition Audit Process

This is in reply to your request for comments on the draft report dated March 14, 1997, subject as above.

Our mutual goal is to make the entire DoD internal audit program as effective and efficient as possible. We appreciate your constructive suggestions toward that end. Our comments pertain almost exclusively to those parts of the report other than Findings B.

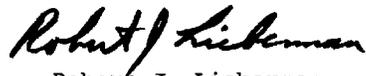
It is a source of great frustration to this office that the dialogue on how best to use DoD audit resources tends to be captured by narrow and one sided issues that relate solely to unsubstantiated perceptions about burden on acquisition program managers. We agree that the process for planning, scheduling and carrying out audits should be the focus of continuous process improvement. Maximizing the usefulness of our efforts to the users of our products, executing audits efficiently, and maintaining good working relationships with the audited activities are important goals and I believe that all DoD audit offices have been working toward them. There are passing references to some of our initiatives in the draft report and, while we hope that the final report will be somewhat beefed up in this regard, it should at least be made clear that your report is neither a comprehensive discussion of all audit process reengineering efforts nor a broad evaluation of the effectiveness and benefits of audits involving acquisition programs.

In addition to the enclosed detailed comments, we offer two other general observations. First, although avoiding excessive numbers of auditor visits and duplicative data collection in acquisition program offices is a valid component of audit process improvement efforts, the expectations of the acquisition community need to be realistic. For large, highly visible and complex weapons acquisition programs, the concepts of a single audit once every few years or of visits by only one oversight entity during the life of a program are neither attainable nor particularly desirable from the standpoint of the Department's best interest. Secondly, the acquisition and audit communities need to work in partnership to address the full range

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of issues related to oversight of acquisition programs. On the acquisition community side, this means: helping us develop audit plans that best meet DoD management and Congressional needs; furnishing constructive suggestions for audit process improvements; helping to identify alternative ways to collect data; and avoiding the kinds of inefficient program office practices regarding audits that auditors would have complained about, if they had been surveyed along with the program managers.

If there are no unresolved issues regarding the recommendations in your final report, I estimate it will take no more than 60 days to implement them.



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Enclosure

Assistant Inspector General for Auditing, Office of the Inspector General, DoD,  
Comments

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Assistant Inspector General for Auditing, DoD  
Comments on the Draft Report on the  
Evaluation of the Acquisition Audit Process

Executive Summary. We suggest that the third bullet under Evaluation Results be rewritten. We disagree there are known additional conditions to correct related to the selection of programs for audit, with the notable exception of the need for more acquisition manager involvement in those selections. If there are, however, I would like to know what they are so that we can address them now. Also, you should delete the last item under Summary of Recommendations, because it does not appear in the report.

Audit Coverage by ACATS. The draft report states on page 6 that, in FY 1995, the OAIG-AUD expended 124 staff years for all acquisition categories. There appears to have been miscommunication, perhaps on the definition of "acquisition audit." In FY 1995, the OAIG-AUD expended 83.5 staff years for weapon system acquisition audits in all ACAT categories. The level of effort would have been less in FY 1996 due to staffing reductions.

Reducing Perceived Duplicative Data Gathering. The report states on pages 6 and 8 that weapon system program managers, responding to the DSMC survey, recognized that the audits did not have duplicate objectives, but felt that a burden still existed in providing the same documentation and briefings to numerous visitors, most of which were from different audit and oversight organizations. Unfortunately, the survey data do not distinguish between auditors and other visitors, nor shed any light on the actual scope of the problem, on which oversight organizations are the principal source of that problem, and on whether recent attempts by us to encourage more information sharing and joint projects have had any effect. In the timespan following the survey, the audit community has continued to work the problem. As our interim automated data base for audit/inspection coverage improves, we are increasingly better able to take reasonable measures to avoid duplicative information requests and research. There are numerous recent examples where we have done this, especially between my staff and GAO, thus reducing the burden on the program office and making more efficient use of our own diminishing resources.

The possibility of further obviating the need for contacting program offices by such means as substituting more information exchange between auditors and integrated process/product teams certainly needs further exploration. We intend to pursue that avenue, as well as expanded use of information potentially being made available to auditors on the Internet or in DoD acquisition management information systems.

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Balance of Coverage. The draft report refers to an imbalance between acquisition audit coverage of ACAT I programs versus ACAT II and III programs to help justify the need for a different audit cognizance arrangement. The Executive Summary asserts that the auditors need "to provide more balanced coverage in the three Acquisition Categories." Yet the report does not support the existence of any significant imbalance. Viewed in terms of dollars in the programs, your figures actually show rather good balance, i.e., two to one ratios for both audit coverage of ACAT I versus others (70:37) and for the dollars in ACAT I versus others (65:35). Nevertheless, the deciding factor in where the bulk of the audit coverage is applied should be the needs of the audit stakeholders. Therefore, if the senior acquisition managers and Service audit agencies believe that more emphasis on auditing ACAT II and III programs would be the best use of Service audit resources, we have no objection.

The statement that "ACAT I programs are frequently the targets of numerous oversight activities by Congress, including GAO and OSD" needs to be rewritten. The use of the word "targets" is especially objectionable.

Defense Systems Management College Survey. On page 7 and Appendix B, your report addresses the DSMC survey. For completeness, you should also include, or at least allude to, the results from the Systems Acquisition Management Corporate Information Management (SAM CIM) Group report on oversight of ACAT-ID programs. This group was chartered by the Principal Deputy Under Secretary of Defense for Acquisition and Technology to look at the oversight burden at program offices. The SAM CIM study showed that project management offices spent 16 percent of their time on oversight and only 15 percent of the 16 percent (2 percent of total time) of the time was spent on audits. This SAM CIM data collection effort appears to have equal validity to the survey report you cited. The survey methodology used by DSMC consisted of asking people what time they thought they spent on audits. The SAM CIM efforts addressed the total oversight burden (Congress, OSD, GAO, Audits, SAE, etc.).

Your draft report gives much credibility to the rather loosely structured DSMC data collection effort on audit impact on program offices. A more accurate presentation would include a statement on how DSMC collected the data and the fact that data on time usage was not independently validated, as well as a summary of the conflicting results of the other study.

We have been attempting to supplement the DSMC and SAM CIM surveys with analyses intended to provide a more clear focus on the scope and cause of unreasonable numbers of oversight visits. For example, we recently assessed the number of audits conducted in the AMRAAM program. The AMRAAM has, in fact, been involved

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in a great number of audits throughout its life, and several of those audits found significant issues. In analyzing the long list of AMRAAM audits, however, we noted that many were non-acquisition related audits and therefore were not reflected in the acquisition audit coverage data base. For example, there were reviews by the local Air Force Audit Agency office on the management of blanket TDY orders, procedures for official travel, drug testing procedures, and management advisory services. Those audits generally resulted in an auditor visiting the program office for a day or less. For three or four OIG audits that the AMRAAM program office had listed as on-going during the last couple of years, the AMRAAM was one of several program offices the audits reviewed. The total time spent in the program office of these three audits all together was about a week and for one of the audits there was only a telephone conversation. This pattern is often repeated, especially for ACAT I programs. We mention the case only because it is indicative of the need for better information as we continue trying to fine tune the audit process as it relates to acquisition program offices.

Audit Mix. On page 8, the report refers to the DSMC survey data that 85 percent of respondents believe that only one audit agency should review each program and there should be fewer, but more comprehensive, audits at appropriate points in the acquisition cycle. Those views reflect a program manager's viewpoint, but not the needs of most audit report users in both Congress and DoD. The OIG and the Service audit agencies do both comprehensive audits of single weapon systems at appropriate points in the acquisition cycle and, probably more often, cross-cutting audits involving multiple program offices. The cross-cutting audits often include both ACAT I and ACAT II programs and sometime ACAT III programs. In the era of acquisition reform, multi-system reviews to focus on the impact of various policy or procedure changes appear to be more valued by many audit report users than are single system audits. The audits of a single weapon system will not identify systemic issues concerning the DoD or Service acquisition processes or functions. Also, in a cross-cutting audit, a mixture of ACAT programs will give a better understanding of how the functions and process are working. To consider only ACAT I or ACAT II and III programs in a process oriented audit would not provide a balanced view and could lead to findings and recommendations that are flawed because of the differences across the spectrum of programs.

In addition to acquisition-related audits, other audits are also done that must be conducted in part in an acquisition program office. These audits deal with logistics, finance, intelligence, security, or other non-acquisition related issues. They have stakeholders outside the weapon system acquisition community and are frequently driven by law, regulation, Hotline

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allegation, and Congressional or DoD non-acquisition management request. In some cases, program offices are visited more by auditors on these kinds of assignments than on acquisition audits.

Meaning of Primary Audit Cognizance. It is important not to overstate the likely impact of implementing a primary audit cognizance arrangement. On page 9, the report states that the role of the Acquisition Program and Contractor Oversight Joint Planning Group could be reduced because duplication would naturally be avoided due to the separation of audit cognizance. This statement is wrong. The group will have a formidable planning challenge in trying to weave together an efficient coverage plan that meets all stakeholder needs. Its workload will not be reduced at all because of primary audit cognizance; indeed, I expect the group to be much more active and to require more senior audit manager involvement.

Page 8

GAO.

Pages 8 and 9 state that "...GAO would still perform audit based on congressional requests or on a self initiated basis. [and] ...that the GAO coverage would not be impacted by DoD efforts to assign audit cognizance." We agree. The GAO will continue to maintain a presence in all large, high visibility programs. We will continue to coordinate with and work with GAO to minimize the burden on program offices. However, even our best efforts only rarely reduced the number of GAO reviews in any one weapon system program, and will not guarantee that the GAO will not initiate reviews even when we or another DoD audit organization have an on-going audit in the program office.

Page 8

Finding B. No comments.

Recommendation A.1. Concur, presuming that the Air Force agrees too.

Recommendation A.2. Concur in principle. The recommendation is actually redundant, because primary audit cognizance as a concept does not entail refusing all access by other auditors. If it did, Recommendation A.1. would be a gross impingement on the authority of the Inspector General, DoD. Primary audit cognizance is best described as a right of first refusal. The agreement to implement Recommendation A.1. would take care of this and other modalities.

Recommendation A.3. Concur in principle. Again, the separate recommendation appears redundant. Because we already arrange for access by Military Department auditors to DFAS, DCMC and other "DoD activities," we are unsure why there is a perceived problem. Clarification in the final report would be useful.

Appendix B. It is unfortunate that the description of the audit community's initiatives to address the concerns related to Finding A is buried in the back of the report under the label "other Matters of Interest." Appendix B should be split up, retitled and updated. In particular, it needs to indicate that, in January 1997, the Inspector General, DoD, and the Under Secretary of Defense (Acquisition and Technology) signed the charter for a Joint Acquisition Management and Audit Group. <sup>5</sup>

In Appendix B you mentioned that the Joint Acquisition Management and Contract Oversight Audit Planning Group developed an acquisition audit data base. Please add to your report that the Joint Planning Group is working on expanding the data base to include non-acquisition audits which may impact on weapon system program offices. The Logistics Audit Planning Group has already begun using the data base to track logistics audit coverage. We are also working on determining how best to make the data base available to the acquisition community, perhaps through means such as the Under Secretary of Defense (A&T) home page.

The charter is a major step forward in long-term efforts to achieve a more collaborative audit planning process. No evaluation of the acquisition audit process could be considered as complete without a thorough discussion of the positive ramifications of this agreement. Among many other benefits, the joint planning group should foster the teamwork needed to constructively address the kinds of issues discussed in Finding A.

The audit organizations have also initiated more joint projects in an effort to reduce the audit burden on program offices and to consolidate issues from multiple sources within one project. In addition, we have expanded the scope of ongoing single system audits to obtain information needed for other audits. This further reduces the number of auditors and teams going into a program office, although it may delay completion of the audit.

By far the most useful things that the DoD acquisition community could do to assist us in addressing this perceived problem are: (1) participate proactively in the joint audit planning process and (2) inform senior audit managers of specific instances of poor coordination or lack of data sharing when and if they occur. We earnestly solicit such feedback. Meanwhile, I will reemphasize the point in a memorandum to staff; post-audit surveys of audited organizations; a quality assurance review within OAIG-AUD in FY 1998; OAIG-AUD auditor training course material; and pursuit of the alternative channels discussed above for audit data collection.

# Deputy Under Secretary of Defense (Acquisition Reform) Comments



ACQUISITION AND  
TECHNOLOGY

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

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9 JUN 1997

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

THROUGH: DEPUTY DIRECTOR, CONGRESSIONAL ACTIONS AND  
INTERNAL REPORTS, OD/API

SUBJECT: Evaluation of the Acquisition Audit Process

This replies to your request for comments on the draft report dated March 14, 1997,  
subject as above.

We concur with the report with the following comments:

- Finding A. We strongly agree with the finding. Assignment of primary audit cognizance as outlined in the IG report will make the most efficient use of the audit resources available. We suggest, in addition, that this approach be extended to ACAT IAM, ACAT IAC, and ACAT III AIS programs.

Our understanding of the meaning of primary cognizance does not preclude the initiation of special service conducted audits on ACAT I programs when special circumstances warrant. We believe that such an audit action would require coordination between the initiating agency and the audit agency with primary audit cognizance.

- Finding B. We believe the assignment of auditors to Program Executive Offices should be supported. The practice provides the auditor with valuable insight into program office operations while providing program management with immediate access to an audit professional. As a result, potential issues can be identified and resolved before they become problems. Such an approach is in keeping with the basic principles of acquisition reform and should be continued consistent with the satisfaction of technical requirements within the audit community.

Donna S. Richbourg  
Acting Deputy Under Secretary of Defense  
(Acquisition Reform)



## **Evaluation Team Members**

This report was prepared by the Financial and Performance Audit Directorate, Office of the Assistant Inspector General for Policy and Oversight, DoD.

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