

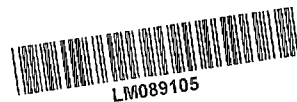


UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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APR 10 1975

Mr. Robert E. Barnett, Director
Office of Management Systems and
Financial Audits
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW.
Washington, D.C. 20429



Dear Mr. Barnett:

As part of our annual audit of the Corporation we relied to the extent feasible upon the internal audits performed by the Financial Audits Branch. Internal auditing is widely recognized as an important part of internal control. Accordingly, GAO is concerned with the usefulness and effectiveness of internal audits in the agencies we review. Continued improvement in the internal audit function is helpful in that it will permit us to reduce the scope of our work. The benefits to the Corporation from this are not only the probable reduction in our billing, but also enhanced management control that is achieved through this means.

We are aware that there are plans to restructure the internal audit function but that currently no formal plan exists. You may wish to consider suggestions which we have discussed with your associates in this effort.

As you are aware, independence is basic to the effectiveness of any internal audit function. This function should be separate from all officials directly responsible for the operations which may be reviewed. Organizationally, the Financial Audits Branch is within the Office of Management Systems and Financial Audits (OMSFA), which is an operational division. Whenever the internal auditors review the operations of other branches within OMSFA, their independence could be impaired. Ideally, the internal audit function should be separate from operating functions and should report directly to the Chairman. If this is not feasible, we suggest that the plans to restructure the internal audit function provide that the Director of

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Financial Audits have direct access to the Chairman and the Board of Directors when he deems it necessary for the fulfillment of his responsibilities.

We also noted that the Financial Audits Branch was not always informed of reviews being conducted by other organizations within the Corporation. For example, in 1973 the Information Service Branch conducted a study of accountable property; however, the Financial Audits Branch was not consulted until the study was completed. We believe the Financial Audits Branch should be informed from the outset of all internal reviews relating to the operations of the Corporation. Such coordination would (1) enable the information to be pooled, (2) avoid duplication, and (3) ensure that reviews and audits were conducted in the most efficient manner.

Your comments on the above matters and advice as to any action taken or planned would be appreciated. We are available to meet with you or your staff for further discussion if this would be helpful.

Sincerely,

Donald C. Pullen
for H. L. Krieger
Regional Manager

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