

GAO

Report to the Inspector General
Department of Agriculture

September 1986

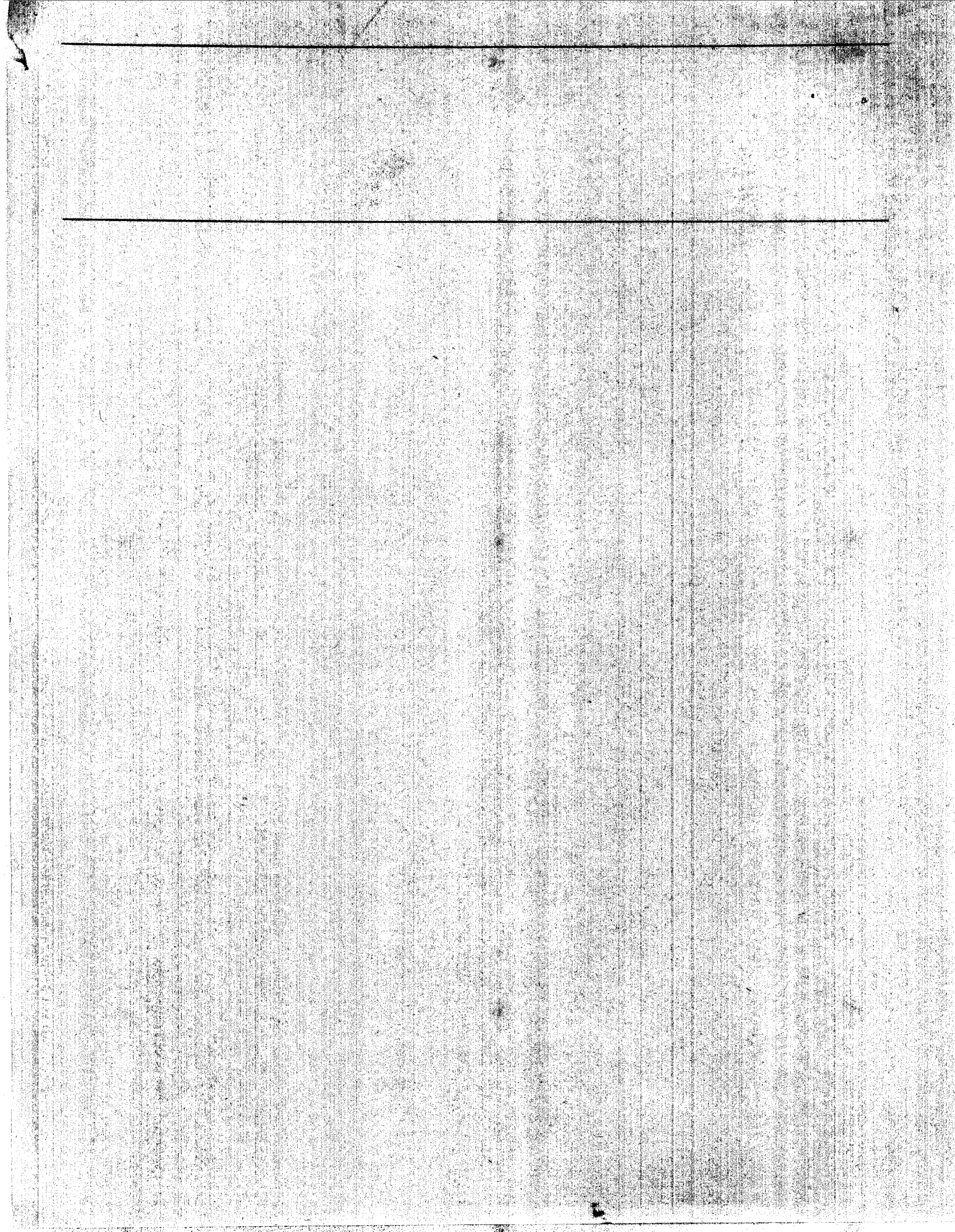
INSPECTORS
GENERAL

Compliance With
Professional Standards
by the Agriculture
Inspector General



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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-222376

September 30, 1986

The Honorable Robert Beuley
Inspector General
Department of Agriculture

Dear Mr. Beuley:

This report summarizes the results of our review of the Office of Inspector General's compliance with professional standards. This is the second of a series of reviews planned for federal inspectors general and internal audit organizations.

The report contains recommendations to you in chapters 2 and 3. Please advise us of the action you take on these recommendations.

We are sending copies of this report to the Secretary of Agriculture, the Director of the Office of Management and Budget, and interested Members of the Congress.

Sincerely yours,

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

Statutory offices of inspectors general (OIGs) and other federal internal audit organizations play an important role in preventing and detecting fraud and abuse, and in promoting economy, efficiency, and effectiveness in federal programs and operations. Because of the importance of OIG work, GAO has initiated a series of "quality assessment reviews" of inspectors general and other federal internal audit organizations. This report covers the Department of Agriculture Office of Inspector General.

Background

The Agriculture OIG conducts audits and investigations, pursuant to the Inspector General Act of 1978. GAO's specific review objectives were to determine whether the OIG

- conducted audits in accordance with generally accepted government auditing standards as well as certain standards developed by the Office of Management and Budget and the President's Council on Integrity and Efficiency;
- accurately presented audit-related information in required semiannual reports to the Congress;
- provided appropriate coverage of the department, including different types of audits, such as financial and compliance audits; and
- performed investigations in compliance with professional standards developed by the President's Council on Integrity and Efficiency.

The standards GAO used to evaluate audits and investigations are not absolute measures for quality which must be rigidly applied in all instances, but rather, they are guiding principles for quality to be applied with professional judgment in individual circumstances. GAO uses the term "satisfactory compliance" to mean that GAO found adherence to a standard in a substantial majority of situations tested and that the nature and significance of any instances of noncompliance would not seriously impair OIG operations, credibility, or report findings.

During the review, GAO met periodically with the inspector general and his staff to discuss assessment results as well as GAO's observations on other management practices. In addition, GAO provided the OIG with the detailed findings on each audit and investigation reviewed.

Results in Brief

Of the 23 audit and investigation standards GAO reviewed, the OIG satisfactorily complied with 18. Although the OIG complies with many aspects of the other 5 standards, corrective actions are needed to bring

the OIG into satisfactory compliance with certain aspects of those standards, such as gathering evidence to support audit report statements and planning individual investigations. Also, the semiannual OIG report overstates the results of OIG work. In addition, the OIG should redirect its current financial audit program toward the long-range objective of expressing financial and compliance opinions on the accuracy and adequacy of total agency financial reports.

Principal Findings

Assessment of Audit Function

In order to assess the Agriculture OIG audit function, GAO grouped the audit standards into 12 categories, reviewed 34 audit assignments, and tested other OIG procedures designed to ensure quality in OIG audit work.

The following table shows GAO found that the OIG satisfactorily complied with nine audit standards. On the other three, GAO concluded that there was only partial compliance. The OIG satisfactorily complied with certain aspects of these standards but needs to make improvements to satisfactorily comply with other aspects.

Table 1: Compliance With Audit Standards

Standard	Satisfactory compliance	Needs improvement
Independence	X	
Annual audit planning	X	
Individual job planning	X	
Staff qualifications	X	
Supervision	Partial	X
Legal and regulatory requirements	X	
Internal controls	X	
Fraud and abuse	X	
Evidence	Partial	X
Reporting	Partial	X
Audit follow-up	X	
Quality assurance	X	

For example, GAO found that (1) some OIG supervisors did not comply with standard requirements to document their reviews of subordinates' work and their reviews of evidence to support report statements, (2)

auditors did not have evidence to support some report statements, and (3) some audit reports were not clear, concise, and convincing.

While the OIG did not always satisfactorily comply with auditing standards, GAO did not identify any instances where there was cause to question the OIG's conclusions in the audits reviewed.

In addition to improvements that are needed to bring the OIG into satisfactory compliance with aspects of certain standards, GAO observed that other improvements could be made in OIG operations. For example, GAO believes the OIG should develop written strategic plans for each of the program areas the OIG audits.

GAO also believes that the OIG presents the results of its audit work in semiannual reports to the Congress in a manner that overstates (1) the amount of agency spending that auditors have questioned and (2) money saved as a result of audit findings. (See pages 32-35.)

Assessment of Investigation Function

The Inspector General Act authorizes inspectors general to conduct investigations relating to programs and operations. GAO grouped the standards to assess the investigation function into 11 categories, reviewed 31 investigation cases, and tested the adequacy of certain OIG procedures designed to ensure quality in investigation work.

The following table shows GAO found that the OIG satisfactorily complied with 9 investigation standards and needs improvements to satisfactorily comply with aspects of 2 standards.

Table 2: Compliance With Investigation Standards

Standard	Satisfactory compliance	Needs improvement
Independence	X	
Planning		X
Staff qualifications	X	
Directing and controlling	X	
Screening allegations	X	
Coordination	X	
Due professional care	X	
Reporting	X	
Information management	Partial	X
Quality assurance	X	
Preserving confidentiality	X	

For example, GAO found that (1) OIG investigators did not prepare investigation plans for most investigations GAO reviewed and (2) OIG staff could not always locate case files in one of its eight records storage centers.

GAO did not identify any instance where there was cause to question the OIG's findings in the investigations reviewed.

GAO also observed several other areas where improvements could be made in OIG investigation operations. For example, GAO believes the OIG should consider revising training plans for investigators.

Recommendations

GAO recommends several corrective actions to the inspector general to help the OIG satisfactorily comply with professional standards, including closer supervision of the work, strengthened controls for ensuring that audit evidence supports report statements, improved planning and training, and clearer policies and procedures for auditors and investigators. In addition, GAO recommends several other improvements to OIG operations. For example, GAO recommends that the OIG modify its method of presenting information in its semiannual report to avoid overstating results of OIG work and that the OIG redirect its financial audit work. (See pages 40 and 59.)

Agency Comments

In a July 21, 1986, letter the deputy inspector general, who is now the inspector general, agreed with GAO's assessment and stated that he has begun to implement all but two GAO recommendations. Concerning the first of the two, he will pilot test the recommendation for strengthening controls to ensure that audit evidence supports report statements before he implements a permanent policy change.

Concerning the second, he disagreed with GAO's recommendation to modify the OIG semiannual report presentation because he believes the current presentation is consistent with Office of Management and Budget (OMB) policy. (See page 67.) GAO believes the report presentation overstates savings that result from OIG audits and is bringing this issue to the attention of OMB for resolution. (See page 41.)

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Abbreviations

CPA	certified public accountant
GAO	General Accounting Office
IG	inspector general
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency

Introduction

The government relies on the inspectors general to determine whether funds are handled properly and whether agencies are economically and efficiently achieving the purposes for which their programs were authorized and funded. This report about the Department of Agriculture Office of Inspector General (OIG) continues a series of "quality assessment reviews" by the General Accounting Office (GAO) designed to determine whether the OIG conducts audits in accordance with generally accepted government auditing standards and other standards, and conducts investigations in accordance with standards adopted for OIG investigations by the President's Council on Integrity and Efficiency (PCIE). (The council's membership includes the statutory inspectors general.)

We conducted the first review in this series at the Department of Commerce (Compliance With Professional Standards by the Commerce Inspector General, GAO/AFMD-85-57, August 12, 1985). By comparison, the Agriculture OIG has an audit and investigation function similar to that of the Commerce OIG. Also, the Agriculture OIG employs about 900 staff compared to about 200 Commerce OIG staff. The Agriculture OIG works in a federal department with about 106,700 employees and fiscal year 1985 budget outlays of over \$55 billion.

Objectives, Scope, and Methodology

During this review of the Agriculture OIG, we evaluated the OIG's controls for assuring adherence to the standards; examined a sample of OIG audit and investigation reports and supporting evidence contained in OIG files, which are commonly called work papers; sent a questionnaire to OIG auditors and investigators; and reviewed other aspects of operations including organizational planning. Our review was largely a compliance evaluation that does not evaluate the economy, efficiency, and effectiveness of the OIG. However, we did look at the scope of the OIG's audit coverage, the OIG's role in assisting the Department of Agriculture to implement the Federal Managers' Financial Integrity Act of 1982, and the accuracy and presentation of information in the OIG's semiannual reports to the Congress.

We recognize professional standards are not absolute measures of quality to be rigidly applied in all instances; rather, they are guiding principles to be applied with professional judgment in individual circumstances. In our review, we assessed compliance with a professional standard based on (1) the number of times the organization adhered to a standard and (2) the nature and significance of instances of noncompliance with a standard. Accordingly, we use the term satisfactory compliance with a professional standard to mean that we found adherence to a

standard in a substantial majority of situations tested and that the nature and significance of any instances of noncompliance would not seriously impair OIG operations, credibility, or report findings. Because no absolute quantitative measurement criteria exist for evaluating compliance with the standards that we used, review team members relied heavily on professional judgment.

We assessed compliance on a standard-by-standard basis for the OIG audit and investigation functions. As discussed in chapters 2 and 3, we did not necessarily test every aspect of every standard. Accordingly, we cannot be certain that our review disclosed all material weaknesses in how the OIG conducts its operations; however, all material weaknesses which did come to our attention are discussed in this report.

We conducted our review between August 1985 and February 1986, a period when the Agriculture OIG was under the direction of Inspector General John V. Graziano. Mr. Graziano was appointed inspector general (IG) on July 31, 1981, and retired on February 28, 1986, when his deputy, Robert Beuley, became acting IG. Mr. Beuley became IG on August 11, 1986.

During our review, we met periodically with Mr. Graziano, Mr. Beuley, and their staff to discuss our assessment results as well as our observations on other good management practices which we thought the OIG should consider adopting. In addition, we provided the OIG staff, including those directly involved in assignments, with our detailed findings on each audit and investigation we reviewed.

We conducted our work in accordance with generally accepted government auditing standards. Appendix I gives additional details of our objectives, scope, and methodology.

Mission and Organization of the Department of Agriculture Inspector General

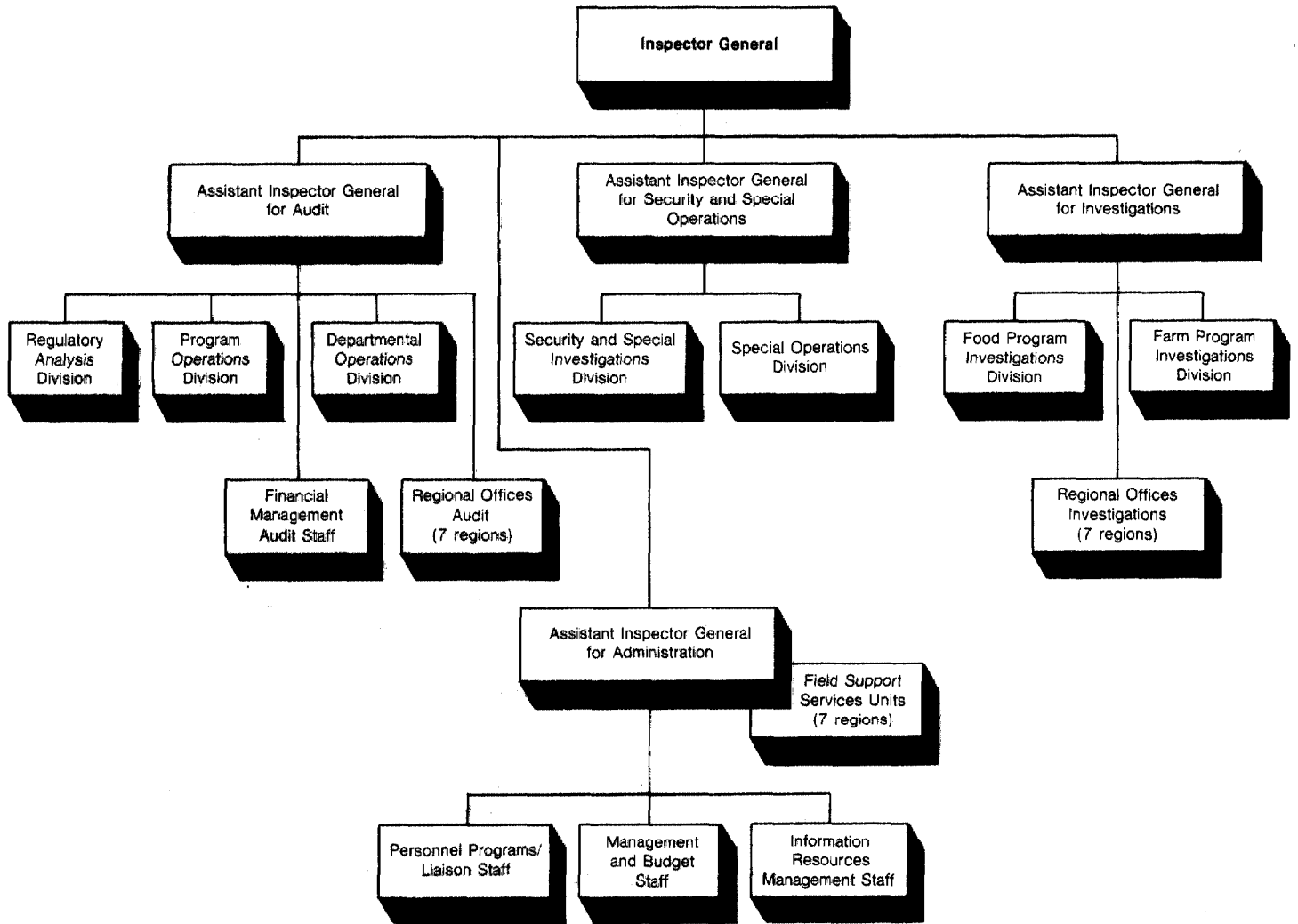
The Inspector General Act of 1978, as amended, and other legislation established an OIG in the Department of Agriculture and in other departments and agencies. The President, with the advice and consent of the Senate, appoints the IG, who directs the office. The IG is under the general supervision of and reports to the Secretary of Agriculture. The IG has a deputy IG, who serves as his principal assistant.

Mission and Organization

The OIG mission is to (1) prevent, detect, and reduce fraud, waste, abuse, and mismanagement and (2) promote economy, efficiency, and effectiveness in the Department of Agriculture. The OIG primarily accomplishes its mission by conducting audits and investigations of departmental operations. Descriptions of the audit and investigation functions are discussed later in this chapter.

The OIG carries out its mission through four major organizational units: Office of Audit, Office of Investigations, Office of Security and Special Operations, and Office of Administration. Each of the offices is directed by an assistant inspector general. All assistant inspectors general report directly to the IG. Figure 1.1 displays the OIG organization chart. Table 1.1 summarizes the OIG positions and budget for fiscal year 1985.

Figure 1.1: Office of Inspector General Organization Chart



Source: U.S. Department of Agriculture, Office of Inspector General

**Table 1.1: OIG Positions and Budget,
Fiscal Year 1985**

Dollars in thousands		
Office	Position	Budget
Inspector General	15	\$1,078
Audits	448	23,345
Investigations	294	16,611
Security and Special Operations	31	1,886
Administration	63	1,975
Totals	851	\$44,895

Source: Department of Agriculture Office of Inspector General.

Audit

The Office of Audit performs audits of departmental programs and operations. It consists of three headquarters divisions, a financial management audit staff, and seven regional offices. Two of the headquarters divisions are responsible for operational matters and provide information on agency programs. The other division handles fraud prevention and management improvement activities with departmental officials. The financial management audit staff, located in Kansas City, Missouri, audits the major Department of Agriculture financial and accounting centers. All seven regional offices—Atlanta, Chicago, Hyattsville (Maryland), Kansas City, New York, San Francisco, and Temple (Texas)—audit departmental programs and operations within assigned geographic areas and assist in investigations as needed. Each regional office is directed by a regional inspector general for audit.

Investigation

The Office of Investigations investigates criminal and administrative wrongdoing involving departmental employees, programs, activities, and functions. The office investigates activities which constitute a violation of laws, rules, or regulations; mismanagement; gross waste of funds; and abuse of authority. The office consists of two headquarters divisions and seven regional offices. The headquarters divisions advise the IG and the assistant IG for investigations on operational matters and provide information on departmental programs and agencies. The regional offices, which are located in the same cities as the audit offices, perform investigations within assigned geographic areas and joint audits/investigations as required. Each regional office is directed by a regional inspector general for investigations.

Other

Two other offices also aid the OIG in carrying out its mission. The Office of Security and Special Operations, which consists of two divisions, provides building security, directs protective operations for the Secretary of Agriculture and other top departmental officials, conducts internal reviews of OIG operations, and investigates allegations about OIG personnel and high-level departmental officials. Because this office, like the Office of Investigations, conducts investigations, we included its investigative work in our assessment of the OIG's investigation function.

The Office of Administration is the OIG administrative support arm. This office, which consists of three units, provides certain personnel management services, develops the budget, monitors and controls expenditures of funds, develops in-house training programs, provides guidance on office automation activities, and performs other related administrative functions.

OIG Reorganizations

In fiscal year 1985, the OIG had two major reorganizations. In July 1985, the Office of Analysis and Evaluation was abolished, and its functions were transferred to the Office of Audit. The former office managed the OIG's fraud prevention and management improvement program and had an assistant inspector general who reported directly to the IG. According to then Inspector General Graziano, the office was abolished, partially in order to avoid duplicating work done by the Office of Audit. Also, in November 1984, aspects of the OIG's personnel functions were transferred to the Department of Agriculture personnel office.

Assessment of the Audit Function

The Inspector General Act of 1978 requires that IGs comply with generally accepted government auditing standards established by the Comptroller General. These standards, contained in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, are general and, as such, permit an OIG flexibility in developing and implementing policies and procedures for ensuring compliance with the standards.

In addition to the Comptroller General's standards, other standards apply to the OIG audit function. In 1984, the President's Council on Integrity and Efficiency issued Interim Quality Standards for Federal Offices of Inspector General which apply to all OIG functions. Also, Office of Management and Budget Circular A-73 provides guidance for annual audit planning, which we included as a standard.

We separated the various standards into 12 categories which we used for assessing the Agriculture OIG audit function. (See appendix II.) We assessed OIG compliance with the standards by reviewing 34 audit assignments, including applicable reports, work papers, and other files. We also evaluated OIG systems for ensuring compliance with the standards, such as written policies and procedures. In addition, we sent a questionnaire to a sample of OIG auditors to solicit their views on subjects related to our assessment.

The OIG satisfactorily complies with 9 of the 12 standards for the aspects we tested. The OIG satisfactorily complies with many aspects of the remaining 3 standards on evidence, supervision, and reporting; however, improvements are needed in certain areas to satisfactorily comply in all aspects. The following section summarizes our observations for the 12 standards.

Table 2.1: Observations of Compliance With Audit Standards

Independence	The OIG satisfactorily complies with the standard with regard to organizational independence. Also, we found no evidence of external or personal impairments to independence in our reviews of OIG work papers and the auditors' financial disclosure statements.
Annual audit planning	The OIG complies with Circular A-73 requirements for an annual plan of audits.
Individual job planning	The OIG satisfactorily complies with the standard.
Staff qualifications	The OIG satisfactorily complies with the standard with regard to auditor education, experience, training, and performance appraisals.
Supervision	The OIG satisfactorily complies with some aspects of the standard, but does not satisfactorily comply with aspects requiring supervisors to document their reviews of subordinates' work and their reviews of evidence to support report statements.
Legal and regulatory requirements	The OIG satisfactorily complies with the standard with regard to conducting compliance reviews of pertinent laws and regulations that OIG auditors identified.
Internal controls	The OIG satisfactorily complies with the standard.
Fraud and abuse	The OIG satisfactorily complies with the standard.
Evidence	The OIG satisfactorily complies with some aspects of the standard, but does not satisfactorily comply with aspects requiring work-paper evidence to support report statements.
Reporting	The OIG satisfactorily complies with some aspects of the standard, but does not satisfactorily comply with the requirement to cite audit standards used or with the report presentation standard.
Audit follow-up	The OIG satisfactorily complies with the standard.
Quality assurance	The OIG satisfactorily complies with the standard.

In addition to assessing the extent of compliance with standards, we reviewed the accuracy and presentation of audit-related information in semiannual reports, which are required by the Inspector General Act of 1978. The IG's semiannual report for the period ending September 30, 1985, overstated questioned costs and loans, and audit savings. To make such reports accurate, the OIG should change the manner in which the information is compiled and presented.

We also reviewed the extent of OIG audit coverage. OIG coverage is concentrated where most dollars are budgeted. The OIG has also conducted audits designed to improve the department's financial management. Generally, however, these audits have not reviewed financial management from a top-down perspective of examining financial reports and the reliability of accounting systems to produce accurate and meaningful reports for a total agency. We believe the OIG should redirect its financial audit program toward this long-range objective.

We reviewed the OIG role in implementing the Federal Managers' Financial Integrity Act as well. We noted that OIG findings regarding the Department of Agriculture's implementation are consistent with our reports on the department. However, we think the OIG should state in its audit reports which cite internal control weaknesses whether the weaknesses were included in the agency's self-assessment reporting under the act. Some areas with internal control weaknesses that were identified in our review were not identified and corrected in the OIG's own self-assessments conducted pursuant to the act.

Compliance With Standards

This section discusses our assessment of the OIG audit function's compliance with standards.

Independence

The standard states that in all matters relating to audit work, the audit organization and the individual auditors must be free from personal or external impairments to independence, must be organizationally independent, and must maintain an independent attitude and appearance. We evaluated the extent that the OIG audit function is free of organizational and external impairments to independence. We also reviewed the auditors' financial disclosure forms to determine if the individual OIG auditors had any financial conflicts of interests on the audits we sampled.

Regarding organizational impairments to independence, the standard states that the organizational structure of the government agency can affect an auditor's independence. To achieve maximum independence, auditors and their audit organizations should report to the head or deputy head of the government entity and should be organizationally located outside the staff or line function of the entity under audit.

The OIG satisfactorily complies with the organizational aspect of the independence standard. The organizational placement of the IG, directly reporting to the Secretary of Agriculture as prescribed by the Inspector General Act of 1978, locates the audit unit outside the staff or line management of Agriculture organizations which might be audited. For example, an official in an Agriculture agency has no authority to specify how the OIG will conduct an audit. The IG's semiannual reports to the Congress, as specified in the IG Act, also provide a guard against inappropriate intrusions on the OIG's organizational independence.

The standard further specifies that in all matters relating to audit work, audit organizations and auditors must be free from external impairments and shall maintain an independent attitude and appearance. External impairments include (1) pressure from an official outside the OIG organization that results in altered or limited work or (2) severe restrictions placed on OIG funding which alters or limits necessary OIG work.

In no case did we find any indications of external impairments to independence of the OIG or its auditors. We reviewed the work papers and other files and discussed external impairments with the audit managers and supervisors for all selected audits.

In an earlier report (Impact of Administrative Budget Procedures on Independence of Offices of Inspector General, GAO/AFMD-84-78, September 26, 1984), we recommended that in many federal agencies the budget process should be modified to enhance the independence of the inspectors general. The Department of Agriculture adheres to our recommendation by having procedures which provide that the deputy secretary receives the OIG's unmodified budget request. In addition, the IG may meet with the secretary to present the budget.

We determined if the OIG audit staff is free from personal impairments to independence, as prescribed by the standards, by reviewing the financial disclosure statements submitted to the OIG by at least one auditor assigned to each of our 34 sampled audits. In each case, we found there was no apparent conflict between the financial disclosures and the auditor's role on the assignment.

Government personnel regulations require employees who work in sensitive positions at the grade 13 level and above to file an annual financial disclosure statement. At the Agriculture OIG, all auditors regardless of their grades are required to file annual statements. Each auditor whose statements we reviewed had filed the financial disclosure statements, as required, for years corresponding to time periods covered by the audits in our sample, and the OIG's designated personnel officer had reviewed and signed the statements.

Annual Audit Planning

OMB Circular A-73, "Audit of Federal Operations and Programs," requires each executive branch audit organization to identify the organizations, programs, and activities within its department and develop, at

least annually, a plan of scheduled audits that should be reviewed by the head or deputy head of the department.

The OIG satisfactorily complies with the OMB requirements to develop an annual plan. To develop the annual plan, the assistant inspector general for audit and other officials in the OIG meet at least semiannually to discuss potential audit areas and to propose individual audits. The OIG elicits views and suggestions from Agriculture officials before these semiannual planning sessions, incorporating the officials' requests into OIG planning analyses. From these planning sessions, the OIG prepares a draft annual plan consisting of a compilation of proposed audits for a year. The OIG sends a copy of its final plan to the Agriculture officials.

We think this planning process could be improved if the OIG developed a written strategy for each of the program areas that it audits. Such a strategy would establish goals to be achieved, either on a program basis or on a functional basis, and would include a plan for achieving the goals. For example, a strategy might include a goal of improving the efficiency of a program's administration and then might specify several audits for accomplishing the goal. For example, one of the audits could be designed to review ways of simplifying program regulations. To date, the OIG has not regularly prepared written strategies.

The annual plan that we reviewed for fiscal year 1986 is a list of individual audits and the objectives of each one. In addition to the annual plan, the OIG has been developing a written strategy for its audits in the area of automatic data processing because the assistant inspector general for audit is concerned that the various audits needed more cohesiveness in their objectives.

Circular A-73 does not require that a written strategy be developed, but we think such a strategy is important. The benefits of having a written strategy include providing greater assurance that OIG resources are concentrated on the most significant problems. A strategy does not need to be limited to a single year, and it must be flexible enough to accommodate changes that the Congress and the department make in programs and operations. The assistant inspector general for audit told us that he thinks a strategy already is developed at the semiannual planning sessions, but is not put into writing. We think the strategy should be in writing to provide a record of the OIG's rationale for selecting audits and to facilitate review and comments by department officials.

Individual Job Planning

The standard requires that audit organizations thoroughly plan their work. A written audit plan should be prepared for each audit. Auditors who develop the plans should consider the needs of all government users. The plans should be designed to satisfy audit objectives, define the work scope, and provide time frame and staff-day estimates. Audit plans should be followed during the execution phase of an audit, or an explanation for any deviations should be added to the work papers.

The OIG satisfactorily complies with the individual job planning standard. In our review of 34 audits, we found that in all the audits (1) the auditors considered the needs of potential government users when planning the audits, (2) the auditors designed the plans to satisfy the audit objectives, (3) the plans contained time frame and staff-day estimates, and (4) the auditors followed their plans or adequately explained their reasons for any deviations during the audit execution phases.

Staff Qualifications

Audits vary in purpose and scope, and meeting the objectives of each assignment can require a variety of skills. The standard requires that the staff on an assignment collectively possess adequate professional proficiency for the tasks required. We believe audit organizations can ensure that they meet these requirements through their hiring practices, job staffing, training programs, and staff appraisal processes.

The OIG satisfactorily complies with this standard. To determine if the OIG employs qualified people, we determined if the auditors assigned to our 34 sampled assignments were classified in the GS-511 auditor career series, or similarly relevant career series, and reviewed their duties on the audit to determine if they matched the federal Office of Personnel Management's description of work in the series. We found that all the auditors were classified in a relevant career series and that their work matched the description of work for the series.

We also reviewed the education and experience of all 33 persons hired by the OIG as GS-511 auditors from November 1984 through September 1985 to determine if they were qualified for their positions. To qualify as a GS-511 auditor, a person must satisfy the Office of Personnel Management's education and/or experience requirements for the career series, which include basic requirements such as 24 semester hours of college accounting or auditing courses. Additional experience and training is required as the civil service grade level increases. For example, a master's degree in accounting may be used to satisfy requirements to be a GS-9 auditor. We found that all 33 persons hired during

the period had the basic requirements and, when applicable, the additional requirements for the grade levels at which they were hired.

To assess the OIG's training program, we determined if the auditors who worked on our 34 sampled assignments had training or experience that prepared them for their assigned tasks. Based on reviewing employee records and determining the auditors' roles on each audit, we found that all auditors in our sample of 34 audits had training or experience that prepared them for their assigned tasks.

We also reviewed an OIG training plan developed for its auditors in October 1985. The plan lists courses which are mandatory for auditors as well as courses provided when needed. We attempted to determine if OIG auditors had been trained in the areas identified as mandatory, but we found that OIG training records for individual auditors do not specify if the auditors received comparable on-the-job training, and we could not be certain that courses listed in an individual's training records were similar to the mandatory courses in the 1985 plan. However, we noted that the OIG does not currently teach two courses that the training plan considers mandatory. In addition, the training plan emphasizes required entry-level courses; there are 10 mandatory courses for entry-level staff but only one required course for intermediate-level auditors.

OIG officials informed us that their training program has been undergoing an internal review which began prior to our review, and they plan to reassess their training plan. We agree that this review is needed.

Some OIG auditors believe that the training program needs improvements. Sixteen percent of the 115 auditors who answered our staff questionnaire thought that training in the last 2 years had not adequately prepared them for the assignments that they performed, 77 percent thought that the training had adequately prepared them, and 7 percent were undecided.

To assess the OIG's performance appraisal program, we reviewed the appraisals given to 30 randomly selected auditors to see if they received appraisals for each of the past 2 years. All had received two appraisals during the period, except for those auditors who were new hires or had resigned. Collectively, the appraisals show that the OIG recognizes differing levels of performance by its auditors on a variety of performance elements, such as job planning and data collection and analysis. The appraisals also show that auditors are counseled during the appraisal process. If an auditor is rated below an acceptable level of performance

in an element that the OIG designates as critical, the OIG requires the supervisor to prepare a performance improvement plan which shows work deficiencies, areas needing improvements, and recommended training to correct deficiencies. Although the OIG rated none of the auditors in our sample below an acceptable level of performance, which would have required the performance improvement plan, other OIG records show that such plans were prepared for other auditors when appropriate.

Most auditors responding to our staff questionnaire thought their supervisors or other responsible officials during the past 2 years had discussed the performance appraisals with them in sufficient detail to provide a clear understanding of strengths and of needed improvements.

Supervision

The standard requires supervisory reviews of the audit plan, audit work and related reports, and the audit staff's judgment. Also, the standard states that assistants are to be properly supervised. Audit supervisors must review and comment on all work products from individual work papers through draft reports and retain evidence of these reviews. Supervisory reviews should determine whether (1) the work plan is adequate, (2) auditors performed their work in conformance with audit standards, (3) the audit plans are followed unless deviations are justified and authorized, (4) the work papers adequately support findings and conclusions and provide sufficient data to prepare a meaningful report, and (5) the audit objectives are met. Therefore, supervision is particularly important for ensuring audit quality. We believe this standard requires a very high degree of compliance.

In addition, OIG policy prescribes that a supervisor document his or her review of work papers and reports by initialing each work paper reviewed and by completing a form which summarizes the comments.

The OIG satisfactorily complies with the standard for some aspects. For example, in 27 of our sample of 34 audits, the supervisors provided input in planning the audits. For the remaining 7, the nature of the audit work was to assist another OIG field office or to use a previously prepared audit plan, and therefore, supervisory input for the work we examined was not required. Also, for 32 of the 34 audits, supervisors assigned work to staff members commensurate with their abilities. We took exception to the tasks assigned in two audits because the supervisors assigned work to staff with known weaknesses and did not supervise them closely enough to identify problems with the work performed.

Corrective action is needed to bring the OIG into satisfactory compliance in two other aspects of the supervision standard. In 6 of the 34 audits, we found no written evidence that a supervisor monitored the subordinates' work to ensure that the audit plan was adhered to. In four of these six audits, supervisors told us that they supervised the work with telephone contacts and did not document their discussions. In addition, for 5 of the 34 audits, we saw no evidence that supervisors reviewed work papers to ensure that audit findings in draft reports were adequately supported. Also, for four other audits, we saw evidence of some supervisory review to ensure the reports were supported with work papers, but our review found inconsistencies between the reports and work papers. This type of supervisory review is particularly important for the Agriculture OIG since it does not have a referencing process to verify factual statements in each of its audit reports. (See page 25.) Although evidence such as trip reports and time records indicated that supervisors participated in many of the cases we discuss, OIG work papers and related files did not always document aspects of supervision specified by the standards.

To illustrate, we saw one audit where the audit staff cross-indexed the draft report to work papers, but there was no evidence that the supervisor checked their work or had anyone else check it. Another audit had a draft report partially indexed to work papers, but many numbers and statements had not been indexed. Nothing in the work papers showed evidence that a supervisor had reviewed the work. The supervisor told us that he had traced the information in the report to work papers, but he did not document the review.

By contrast, another OIG audit exemplifies satisfactory compliance with the standard. The work papers had written evidence of the supervisor's review throughout. For example, the supervisor had prepared a review document showing that each audit plan step had been carried out. The supervisor annotated the work papers to document his review. He also commented in his review document that his review showed that the work papers supported the audit findings. Other types of evidence that we felt satisfied the standard included monthly progress reports, quality control reviews, and trip reports indicating that supervisors discussed audit findings and reviewed work papers.

Ensuring audit quality and professional reports requires proper supervision from the planning through the report processing phases of an audit. Supervision adds seasoned judgment to the work done by less experienced staff and provides important on-the-job training to them. A lack

of satisfactory compliance with the various aspects of this standard can result in inadequate audit work and unsupported report statements. We did identify some such cases, and these are discussed under the section on evidence. (See page 25.)

Legal and Regulatory Requirements

The standard requires auditors to review auditee compliance with applicable laws and regulations. These reviews are necessary so that auditors can gain an understanding of the expected results of the program or activity being reviewed and can determine compliance with laws and regulations that could materially affect an entity's financial statements or the acquisition, management, and utilization of the entity's resources.

The OIG satisfactorily complies with this standard with regard to conducting compliance reviews of pertinent laws and regulations that OIG auditors have identified. In 33 of the 34 audits that we reviewed, OIG auditors conducted appropriate compliance reviews of laws and regulations that they identified, and we agreed with their conclusions as to auditee compliance, based on the evidence that they obtained. On one audit, we could not determine whether OIG auditors appropriately conducted their review of compliance with an applicable law.

We did not verify that OIG auditors adequately identified all applicable laws and regulations. Responsibility for ensuring that individual audit plans include all applicable legal and regulatory requirements is delegated to OIG field supervisors and headquarters' audit advisors. OIG procedures require the supervisors and advisors to be aware of applicable requirements, and they specialize in particular Agriculture programs.

OIG officials told us that they believe their process is more than adequate for identifying applicable legal and regulatory requirements. However, they noted that the process may result in duplicated work by OIG headquarters and field offices. Consequently, they initiated a study to explore the feasibility of creating a data base of program laws and regulations which would be used by audit planners at the start of every audit. We think this approach would be desirable if the OIG study shows that it is feasible.

Internal Controls

Internal controls are the plans of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained,

and fairly disclosed in reports. Internal controls may be classified as accounting or administrative controls.

The standard requires that auditors study and evaluate internal control systems applicable to the organization, program, activity, or function under review. Audit reports should contain a description of material weaknesses found in the internal control systems. The standard applies to all economy and efficiency audits, and program results audits; however, the nature, extent, and scope of the work necessary for conforming with the standard will vary depending on audit objectives. Where audit objectives include determining the cause of management problems or deficiencies and making recommendations, the standard requires that the audit study and evaluate internal controls as well as report any material weaknesses found.

The OIG satisfactorily complies with the internal control review standard. Thirty-two of the 34 audits identified and studied pertinent internal control systems for the audited entity. A review of internal controls was not necessary for the remaining two audits in our sample.

The Federal Managers' Financial Integrity Act of 1982 establishes a renewed emphasis on agency internal controls. We think this emphasis places an added responsibility on auditors to be aware of internal controls when they conduct audits. An important contribution to implementing this act, which we discuss on page 38, is for auditors to determine during their audits if agency management has identified internal control weaknesses in self-assessments that are made pursuant to the act. The act does not require that the OIG do this, but we think the OIG should consider it.

Fraud and Abuse

The standard requires that auditors be alert to situations or transactions that could indicate fraud, abuse, and illegal acts. If evidence of such situations or transactions exists, the auditors should extend audit steps and procedures to identify the effect on the entity's operations and programs.

The OIG satisfactorily complies with this standard. In reviewing the audit work papers and talking to OIG officials about our sampled audits, we identified 10 audits out of 34 where the auditors found indications of fraud. In each case, the auditors appropriately expanded audit testing to detect the fraud and/or coordinated with OIG investigators.

Evidence

The standard requires auditors to obtain sufficient, competent, and relevant evidence—physical, testimonial, documentary, and analytical—to afford a reasonable basis for their judgments and conclusions. A written record of the auditor's work must be retained in the form of work papers that are complete, accurate, clear, legible, and relevant. Sufficient, competent, and relevant evidence is important for ensuring quality reports, and we believe this standard also requires a very high degree of compliance.

The OIG satisfactorily complies with some aspects of the standard. For example, we found that the work papers for our sample of 34 audits documented the nature and scope of the audits, were legible and generally relevant to achieving audit objectives, and, with one exception, contained competent evidence. The exception was an audit in which we could not determine the source of information in the work papers.

One area needing correction to satisfactorily comply with the standard is work-paper support for audit report statements. In 6 of 34 audits, we identified factual statements in audit reports which the work papers did not support with evidence. However, the discrepancies were not significant enough to change the audit conclusions. An illustration of this type of discrepancy is an audit report that states the OIG found a district Agriculture office made appropriate decisions to excuse eight borrowers from a requirement to refinance their government loans with loans from private lenders. In contrast with the report, the work papers showed the auditors reviewed only five of the district office decisions and found that one of the decisions was inappropriate.

We think the principal cause for the discrepancies between work papers and report statements is that OIG policy does not require that report statements be verified to the work papers by an experienced auditor who has not worked on the audit. This check is known as "referencing." OIG policy does call for "quality control reviews" for audits that the OIG views as having major or significant impact, or that use statistical projections. Similar to referencing, the quality control reviews have an experienced auditor review work papers and the audit report to verify the accuracy of dollar amounts, reasonableness of conclusions, and attainability of recommendations. Unlike referencing, the quality control reviews do not check each factual statement. Thus, the OIG reviews may not have disclosed the discrepancies that we found.

Inaccuracies in audit reports can erode the OIG's credibility and the confidence that agency managers place on the reliability of the reports. We

think the OIG should require all its audit reports to be referenced in order to prevent inaccuracies from occurring.

A second aspect of the standard needing correction to satisfactorily comply with the standard is the preparation of work papers. OIG policy states that work papers should be clear and understandable, without supplementary oral explanations. All work paper analysis should be explained, as well as indexed to other relevant work papers. However, in 5 of the 34 audits, we found that work papers were not clear and understandable. For example, we saw work papers which did not cite sources or explain the basis for auditor calculations, and we could not understand the calculations without the OIG audit supervisor assisting us. We think OIG policy should be more precise about how auditors should make their work papers clear and understandable. For example, the policy could illustrate work-paper formats and require certain information, such as explanations of any calculations and cross-indexing to source documents.

Reporting

Generally accepted government auditing standards contain standards for report timeliness, content, presentation, and distribution. The following sections discuss the results of our review in each of these areas.

Report Timeliness

The standard states that reports should be issued on or before the dates specified by law, regulation, or other special arrangement. They should also be issued promptly to make the information available for timely use by managers and legislative officials.

None of the reports in our sample were required by laws, regulations, or special arrangements to be issued by specified dates. However, we found the OIG satisfactorily complies with the aspect of the standard for issuing reports for timely use by managers. For 33 of the 34 reports that we reviewed, report users told us that they received the reports in sufficient time to be beneficial to them. The exception was a report addressee who said that he did not get a report. (See page 28.)

Report Content

The standard requires that audit reports include statements on (1) audit scope and objectives, (2) adherence to generally accepted government auditing standards, (3) internal controls, (4) recommendations for corrective action, and (5) comments of agency officials.

The OIG satisfactorily complies with the standard for most aspects. For example, all the reports that we reviewed contained recommendations when appropriate. In addition, 33 of the 34 reports contained satisfactory descriptions of audit objectives and scope. The exception was a review of an Agricultural Stabilization and Conservation Service county office in which the report stated that the audit appraised the office's compliance with regulations and its economy and efficiency, while in fact, audit work papers show that the audit was limited to potential problems that had been identified in an earlier audit. The audit work was not sufficient for the auditors to judge compliance with regulations or the economy and efficiency of the office. We discuss report content regarding internal controls on page 24.

The OIG does not satisfactorily comply with the requirement in the standard for a report statement on adherence to auditing standards. Five of the 34 reports did not have the statement. Four of these were letter reports, which is one variety of OIG audit report. Two regional officials told us that OIG policy has been unclear about the requirement for the statement in letter reports. The OIG plans to clarify the policy, according to another official.

We think OIG policy should be changed to require a statement about adherence to auditing standards for every OIG audit report. Such a statement informs OIG report users how the work was performed and to what extent they can rely on the report.

Report Presentation

The standard requires that reports be objective, clear, concise, and convincing. The OIG does not satisfactorily comply with this aspect of the standards. In our judgment, 4 of the 34 reports were not clear, concise, and convincing. For example, in one report, agency comments disputed several reported audit findings, but the audit report contained the disputed findings and did not rebut the agency comments. In another section of the same report, the OIG stated that the agency agreed with the findings. In the second report, the numbers used to explain the audit's sampling changed throughout the report with no explanations. We found the third report poorly written because we had difficulty understanding the message and scope of work. The fourth report had contradictions between details in the report text and attached exhibits.

One way to prevent some of the report presentation problems discussed above would be for the OIG to require report referencing. We discussed

this process under the standard on evidence. (See page 25.) Such a process would have an auditor who has had no involvement in the report preparation review the report looking for contradictions and inaccuracies. Although referencing can add a few days to the time it takes to prepare reports, it can lead to correction of the types of problems we noted before a report is issued. As we previously discussed, we believe the OIG should change its procedures to require that each audit report be referenced.

Report Distribution

The standard states that federal audit organizations must submit their reports to appropriate officials of the organization audited and the organization requiring or arranging for the audit, unless legal restrictions or ethical considerations prevent them from doing so. Audit organizations should also send copies of reports to officials who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports. Unless reports are restricted by laws or regulations, audit organizations should make copies available for public inspection.

The OIG satisfactorily complies with this standard. The OIG appropriately distributed 33 of the 34 audit reports in our sample. Those receiving the reports included officials of the audited unit and Agriculture officials responsible for acting on audit findings and recommendations. All the reports are available to the public with Freedom of Information Act requests.

One report was not appropriately distributed. The audit reviewed an area office of the Agricultural Research Service. The report, issued in December 1984, concluded that the office was operated satisfactorily. The office director told us that neither he nor his staff received a copy of the report. An OIG official told us that he thought the report was distributed, but he had no record other than a distribution list of intended recipients prepared when the report was completed.

One way to prevent such a problem would be to have each addressee sign and return a receipt when a report is received. Currently, the OIG does not have such a method to control its report distribution.

Audit Follow-Up

The standard requires that auditors follow up on findings from previous audits to determine if the auditee had taken appropriate corrective actions. Follow-up can occur two ways. One way is when auditors do

subsequent audits and determine whether earlier recommendations have been implemented. Another way auditors follow up is with periodic inquiries after their audits to determine if their audit recommendations are being considered and implemented.

The OIG satisfactorily complies with this standard; however, some improvements are needed. In 31 of the 34 audits we sampled, the auditors had been aware of and followed up on any earlier audit recommendations. In one audit—a review of the department's loan management practices in three states—the OIG auditors did not attempt to determine if there had been previous audits or to follow-up on recommendations. In the remaining two sampled audits, the audit scope was limited to individual loan recipients and we believe the auditors did not need to determine if there had been earlier audits.

The OIG also has an automated system for tracking the status of audit recommendations. In keeping with OMB requirements, the system tracks whether agreements on recommendations are reached with management within 6 months of report issuance and compiles at OIG headquarters the status of each recommendation. The system also tracks whether the recommendations have been implemented or not. Each field office is supposed to keep documentary evidence to support the automated system.

To test the OIG system for tracking recommendations, we reviewed the status of one recommendation for each of the sampled audits containing recommendations. We reviewed 31 recommendations in total, since three reports did not contain recommendations. For audits which had more than one recommendation, we selected the recommendation that we judged the most significant. We compared the status of the recommendations in the system with other OIG records to determine if there was consistency.

Of the 31 recommendations, the OIG system showed that 19 had been "closed," meaning that Agriculture had either implemented the recommendation or the auditors no longer thought the recommendation was needed. Documentary evidence supported closing 16 of the 19. For the remaining three, the documentary evidence showed only that corrective action was promised, not yet implemented. For example, the OIG closed one recommendation calling for changing legislation when the audited organization responded that it would consider suggesting the change in the next year. In our opinion, these three deviations in the system were

due to OIG auditors not following OIG policies for closing recommendations. To prevent recurrences, we believe the OIG needs to (1) reemphasize its current policy and (2) require its regional inspectors general to approve the closing of all recommendations. Currently, OIG policy does not require their approval to close a recommendation.

The system showed that the remaining 12 of the 31 reviewed recommendations were "resolved," meaning that Agriculture management agreed to act on the recommendations, but it has not completed its actions.

Quality Assurance

The standard requires that the OIG establish and maintain a quality-assurance program. The standards define quality assurance as an evaluative effort conducted by reviewers external to the units being reviewed to ensure that work adheres to established OIG policies and procedures, meets established standards of performance, and is economical, efficient, and effective.

The OIG satisfactorily complies with this standard. In 1981, the OIG established a quality-assurance program for its audit function. The program consists of operational and internal control reviews. The operational reviews are comprehensive reviews which assess a variety of office functions, such as audit management and reports, and personnel management. The internal control reviews are more limited in scope and focus on only a few functions. Since 1981, the OIG has conducted operational reviews of five of its seven field offices and plans to review the remaining offices during fiscal year 1986.

In a sample of three operational reviews, we read the review reports and found that the reviews were thorough and objective. Each of the reviews was conducted at locations of the reviewed units by teams of auditors from other OIG units. In one instance, a follow-up review determined if recommendations had been or were being implemented. Follow-up reviews are planned for the other two reviews that we sampled. While the reviews examined aspects of operational efficiency and effectiveness, they predominantly examined compliance with certain OIG policies and procedures as well as audit standards.

Quality Assurance for Contracted Audits

Another aspect of the OIG quality-assurance program is its monitoring of contracted audits performed for the OIG, primarily by certified public accountants (CPAs). The OIG contracts for certain audits, such as audits of grants to provide meals at child care centers, grants for the school

lunch program, and indirect costs of food safety inspections. During fiscal years 1984 and 1985, the OIG issued 113 and 371 audit reports, respectively, which CPAs prepared under contract. An earlier General Accounting Office review conducted for the Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations, examined the role that inspectors general play in the CPA audit quality review process and reported on the results of their work (CPA Audit Quality: Inspectors General Find Significant Problems, GAO/AFMD-86-20, December 5, 1985). This review focused on audits that seven OIGs, including the Agriculture OIG, reviewed during fiscal year 1984.

The OIG regional offices conduct desk reviews and quality control reviews of these CPA audits in order to detect and correct any unacceptable work. A desk review assesses each CPA audit report for conformity with auditing standards—usually reporting standards—and for identification of items needing clarification. A quality control review includes checking the auditor's work papers to ensure that the audit conforms to all applicable standards. OIG policy requires desk reviews of each CPA audit and permits each of its regional offices to determine the number of quality control reviews conducted.

Although our December 1985 review did not verify the accuracy of the OIG reviews, based on reviewing correspondence between the OIG regional offices and the CPA firms, we reported that the reviews generally appear to have been adequately performed. However, our earlier review did find other ways that the Agriculture OIG could improve the quality of CPA audits. For example, audit guides provided to certain CPAs contained outdated requirements for report language which resulted in reports that were inconsistent with the current auditing standards, such as the standard to identify significant internal accounting controls during audits. Also, we reported uneven practices for reviewing CPA work among the OIG regions.

Another way the Agriculture OIG could improve CPA audit quality is by compiling and maintaining historic data on CPA performance. Currently, neither the OIG regional offices nor its headquarters compiles and maintains historic data on CPA performance. With this information, the OIG could use its resources more effectively. For example, OIG staff could focus less on CPAs that have a history of acceptable work and more on CPAs with prior unacceptable performance. This information could also be used to track and document unacceptable work when the OIG intends

to act against a CPA, such as referring him or her to the American Institute of Certified Public Accountants.

Our earlier report contains recommendations to all IGs for improving CPA audit quality. For example, the recommendations call for the IGs to (1) require all regions to conduct quality control reviews on an established percentage of the audit reports they receive, (2) prepare and update audit guides for CPAs to use, and (3) compile, analyze, and use the results of desk reviews and quality control reviews to identify and correct the underlying causes of audit quality problems. In a response to our earlier report, the Agriculture OIG generally accepted these recommendations.

Accuracy and Presentation of Audit Information in Semiannual Reports

Audit results reported in semiannual OIG reports are consistent with OIG records; however, we think audit results can be summarized in ways that are more understandable. The semiannual reports are sent to the Congress pursuant to the Inspector General Act of 1978. Although the report transmittal letter is signed by the Secretary of Agriculture, the report is prepared by the OIG. The act specifies that the report contain certain information, but in most respects the OIG can use broad discretion in deciding what information to report and how to present it.

Reported Information Is Consistent With Records

As a part of our review, we tested the reported audit results for the 6-month period ending September 30, 1985, to determine if the numbers matched other OIG records. We also tested selected narrative examples of OIG audits to determine if the examples were consistent with the audit reports and audit resolution records. Our tests showed that the information is consistent with the records. However, as we discuss in the following sections, the information can be presented in ways that can provide a report reader with a more accurate understanding of the OIG information.

The OIG report also contains the types of information specified by the Inspector General Act of 1978. For example, the act specifies that the report list all audit reports issued for the 6-month period. Our tests showed that the OIG listed the reports.

Presentation of Results Can Be More Understandable

We think the semiannual reports should be revised to provide more understandable information to the Congress on the results of audits and the audit resolution process. The information would be more understandable if (1) the OIG revised its use of the term "questioned costs and

loans” to include only outlays that auditors believe should not be charged to the programs and potentially may be paid back to the government, (2) the OIG did not portray management commitments as savings, and (3) report tables and examples used consistent terminology when discussing audits issued and resolved during the period.

Presentation Overstates Questioned Costs and Loans

We previously reported that semiannual reports of many OIGs overstated questioned costs because the OIGs sometimes report questioned costs for audit findings that could only result in management improvements, not recovery of federal funds (Audits of Federal Programs: Reasons for the Disparity Between Costs Questioned by Auditors and Amounts Agencies Disallow, GAO/AFMD-84-57, August 8, 1984). Although implementation of such findings may save money through improved future operations, we did not consider them questioned costs. We believe questioned costs involve outlays which auditors believe should not have been charged to the program and potentially may be paid back to the government. We pointed out in the previous report that the Office of Management and Budget had not provided OIGs with a definition of questioned costs for reporting purposes.

Currently, the Agriculture OIG semiannual reports summarize audit activities in cumulative statistics showing “total questioned costs and loans” for audits issued during the period.

The report acknowledges that most of the total questioned costs and loans is not recoverable; however, the total is highlighted in the report and in the Secretary’s transmittal letter to the Congress. Figure 2.1 is an excerpt of how the data was presented on page 1 of the report for the period April 1 to September 30, 1985.

Figure 2.1: Excerpt of Semiannual Report Cumulative Statistics

Total Questioned Costs and Loans.....	\$11.6 Billion
Intended for collection.....	\$57,580,000
Guaranteed loans canceled....	\$3,579,000,000
Not intended for collection:	
Program improvement.....	\$7,948,529,000
Improper fund allocation....	\$14,891,000

An example of an audit included in the above statistic on “program improvement” illustrates how the data overstates questioned costs and loans. The subtotal on program improvement includes \$3.1 billion of

loans questioned in an audit of a rural electrification loan program, which the OIG recommended limiting to electric cooperatives serving rural areas. The audit shows that from 1978 to 1983, borrowers received loans totaling \$3.1 billion to generate and transmit power in areas no longer predominately rural. The OIG did not question the department's authority to make the loans under the existing legislation. None of the \$3.1 billion in loans already made can be recovered. However, the OIG did recommend a change in the legislation to redefine eligibility for the loans. Any savings that will be achieved by implementing the OIG recommendation will be saved in periods after new legislation is adopted. The semiannual report does not estimate these savings.

Report Inappropriately Portrays
Management Commitments as
Savings

Our previous report also noted that some OIGs reported audit-related savings that included management agreements with auditors to disallow certain costs. However, actual savings occur only when funds are recovered or withheld from the auditee. Our earlier report noted that a portion of the disallowed costs were under appeal. In addition, the potential return may be reduced through acceptable reduction actions under the Federal Claims Reduction Standards. These standards describe the circumstances in which government claims may be disposed of for less than the full amount claimed.

Our previous report concluded that it is inappropriate for OIGs to portray management commitments as savings because these commitments are only an interim point in the audit resolution process. We also recommended that OIGs clearly state that reported disallowed costs are subject to reduction.

The Agriculture OIG reports savings when management agrees to collect disallowed costs and loans and to implement recommended improvements. For example, in the report for the period April 1 to September 30, 1985, the OIG reported that audits resolved during the period resulted in total savings of \$154 million. The Secretary used the same figure in his report transmittal letter to the Congress. However, OIG officials told us that this figure is not savings which have been achieved. According to the report, the savings figure comprises "cost efficiencies identified" totaling \$133.9 million, and "potential recoveries" totaling \$20.1 million. The report does not distinguish the cost efficiencies that have been implemented from those that management has only agreed to implement. Also, the report does not point out that the potential recoveries are subject to further reduction even after they are added to the department's debt collection accounts. However, the same semiannual

report shows that over \$3 million of Agriculture's audit-related debt during the period was either waived, compromised, or reduced for other reasons.

We believe (1) the manner in which the OIG presents management commitments as savings is inappropriate, and (2) the semiannual report should clearly state that the "potential recoveries" are subject to reduction.

Report Does Not Use Consistent Terminology

The semiannual report also shows audit resolution results for certain audits, but the terminology used to present the results is not consistent with the terminology used to present the cumulative statistics on audit activities. For example, when calculating "total questioned costs and loans" for the cumulative statistics, the OIG includes (1) amounts of loan guarantees that the OIG has recommended canceling and (2) costs questioned in areas where the OIG has recommended program improvements. However, when calculating "total questioned costs and loans" for showing audit resolution results, the OIG includes neither category. We think this inconsistency is confusing for report users who try to understand the relationship between costs questioned at the time of report issuance and related audit resolution results.

There are other inconsistencies in the terminology used in the semiannual report. One table refers to "program improvement" and another to "savings and management improvements" for what is comparable information. Another inconsistency is the use of the terminology "total dollar impact" in one place and "total savings" in another place to describe the same number. The report also uses confusing terminology without explaining its meaning such as "guaranteed loans canceled," "loan guarantees recommended for cancellation," "questioned loans intended for collection," and "loan guarantees canceled." We think the semiannual reports would be more informative if the OIG adopted a consistent set of terms and provided definitions for each.

OIG Audit Coverage

The OIG uses the majority of its audit resources—74 percent—on four Agriculture agencies with most of the department's program dollars in their budgets. As seen in figure 2.2 below, the OIG gives the most coverage to the Food and Nutrition Service; Agricultural Stabilization and Conservation Service, including the Commodity Credit Corporation; the Forest Service; and the Farmers Home Administration. In addition to

auditing these agencies, the OIG audits other agencies, performs multi-agency audits, and monitors audit work performed for the department by state auditors and certified public accountants. Figure 2.3 shows percentages of Agriculture's estimated budget outlays by agency in fiscal year 1985.

Figure 2.2: Use of Audit Resources, Fiscal Year 1985

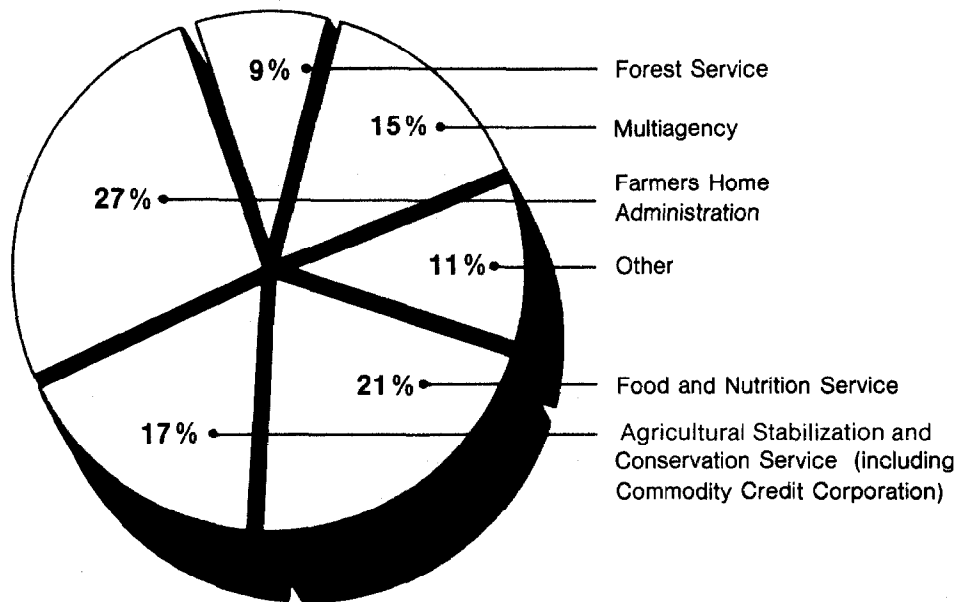
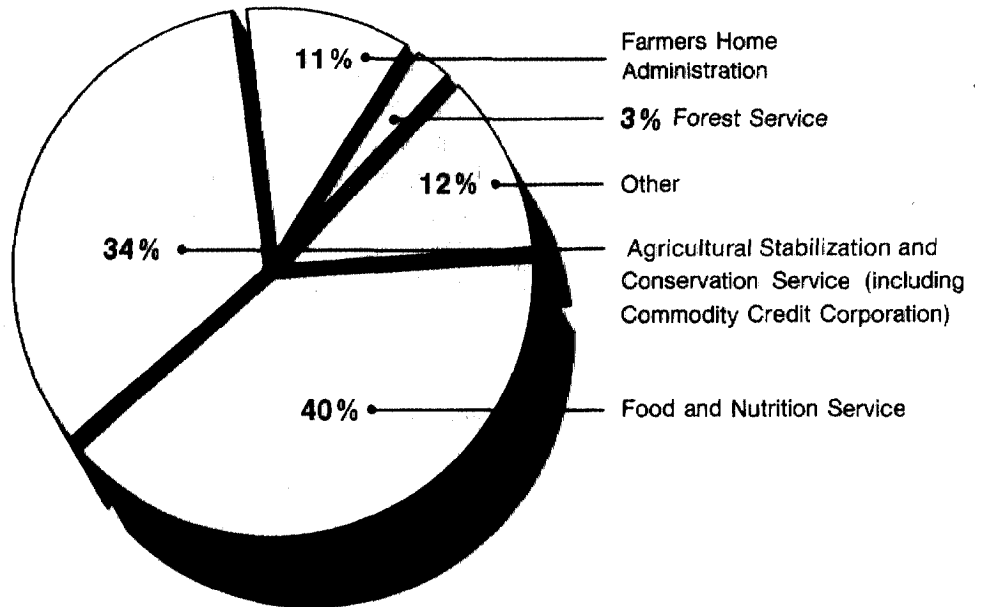


Figure 2.3: Agriculture Budget Outlays,
Fiscal Year 1985, Estimated



Comparisons of a department's budget outlays and an OIG's use of audit resources gives only an approximation of how audit resources should be used. The vulnerability of a program to fraud, waste, and abuse, or the work of other evaluation groups might be justification to adjust resources away from some areas and toward others. For example, the current national concern with the condition of the agriculture economy might justify an increased use of audit resources in Farmers Home Administration programs.

Another aspect of audit coverage is the type of audits that are performed. In this regard, government auditors generally perform three types of audits in order to provide the full scope of audits discussed in audit standards. One type—financial and compliance—examines financial statements, reviews internal controls, and determines compliance with laws and regulations. A second type, economy and efficiency, reviews how well an organization manages and uses resources such as personnel, property, and space. A third type, program results, reviews the outcomes or impact of programs in achieving intended objectives, conformance with laws and regulations, and program costs. An individual audit may be one of the types or a combination of the different types.

Almost all OIG audits are economy and efficiency reviews or program results reviews of compliance with program regulations. All 34 audits we reviewed fell in one or both categories. Several OIG reviews examined aspects of Agriculture's financial operations including audits of cash management, year-end spending, and the reliability of accounting systems which produce financial reports. These audits are important because they have helped to improve the department's financial management. Generally, however, these audits have not reviewed financial management from a top-down perspective of examining financial reports and the reliability of accounting systems to produce accurate and meaningful reports for a total agency. Instead, the audits are directed toward specific financial reports or a single accounting system. We believe that the OIG financial audit program should be directed towards an objective of examining, over time, all of the financial operations of an agency so that the IG will ultimately be in a position to issue an overall financial and compliance audit report for the total agency. We believe that such audits will increase the discipline needed for sound financial management, enhance oversight, and help ensure financial integrity.

OIG Role in Assisting Agriculture to Implement Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982, reaffirming that agency managers are primarily responsible for adequate systems of internal control and accounting within their agencies, is responsible for initiating renewed efforts throughout the government to strengthen internal controls and accounting systems. We reviewed how the OIG has contributed to Department of Agriculture efforts to implement the act.

Since the act was passed, the OIG has issued three audit reports which focused on the process used by the department to implement the act. The first report, issued on December 5, 1983, discussed the department's fiscal year 1983 implementation and pointed out several weaknesses with the internal control evaluation process, but did not make any recommendations due to the short time since the act was passed. The second and third reports, issued on August 31, 1984, and December 19, 1984, recommended that the evaluation process be strengthened. Consequently, the department issued guidelines for conducting the evaluations. The OIG's findings in these 1984 audit reports are consistent with our reviews of Agriculture's implementation efforts.¹

¹Agriculture's First-Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED-84-138, June 21, 1984) and Agriculture's Second-Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED-86-20, October 24, 1985).

The OIG has also assisted the department in strengthening its internal controls in other ways. For example, the OIG has audited the development of automated accounting systems for the Farmers Home Administration and the Agricultural Stabilization and Conservation Service. Also, the OIG has advised the department on which internal controls to include in the regulations to implement 1986 farm legislation, which has far-reaching implications for certain farm programs. However, the OIG might use ideas of other IGs in several areas to facilitate management's efforts to strengthen internal control and accounting systems, including the following examples:

- The Department of Defense IG now requires that if internal control weaknesses are identified during the course of one of its routine audits, the auditors must examine any applicable internal control evaluations to determine if these weaknesses were discovered as part of management's self-assessment process.
- The Department of Energy IG is starting a departmentwide audit to review the department's progress in improving internal controls, which differs from the three Agriculture OIG audits by focusing on the effects of the department's implementation of the act instead of the process for implementing the act.

We think the above are sound ideas, which the OIG should consider adopting.

OIG Self-Assessment of Internal Controls

The OIG has its own program to ensure that its internal operations comply with the Federal Managers' Financial Integrity Act of 1982. The OIG annually assesses its operations for vulnerabilities to fraud, waste, and mismanagement. The OIG schedules internal control reviews for those areas rated highly vulnerable. However, the program thus far has not identified and corrected the types of internal control weaknesses that we identified in this review. The OIG judged that the area "audit management and control" was highly vulnerable in 1984 and 1985 self-assessments, but the OIG has not conducted any internal control reviews of this vulnerable area. If such a review had been conducted, the OIG might have found and corrected the weaknesses that we identified in audit supervision and evidence. The OIG scheduled a review to be completed by September 30, 1985, but as of February 1986, the review had not been conducted.

Conclusions and Recommendations

Based on our review of 34 OIG audits as well as OIG systems for ensuring adherence to audit standards and other standards, we believe the OIG satisfactorily complies with 9 of 12 categories of standards for aspects that we tested. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the audit standards on supervision, evidence, and reporting. While the OIG in some instances does not satisfactorily comply with audit standards, we did not identify any instances where there was cause to question the OIG's conclusions in the cases we reviewed. As noted in our discussion on evidence, we did find discrepancies between work papers and report statements; however, the discrepancies were not significant enough to change the audit conclusions.

To assist the OIG in satisfactorily complying with certain aspects of audit standards, we recommend that the IG

- strengthen quality controls over audit reports by developing and implementing a mechanism, such as referencing, to help ensure the adequacy of evidence and to improve report presentation;
- require supervisors to (1) review the extent that staff assistants adhere to audit plans and (2) document the reviews;
- clarify OIG work-paper preparation policies to explain how work papers should be made clear, understandable, and cross-indexed to source documents; and
- clarify OIG report preparation policies to require a report statement on the extent that the audit adhered to generally accepted government auditing standards.

To increase the ability of annual audit planning to bring OIG resources to bear on the most significant department issues, we recommend that the IG develop a written strategy for each of the program areas the OIG audits.

To increase the discipline for sound financial management, enhance oversight, and help ensure financial integrity, we recommend that the IG redirect his current financial audit program toward the long-range objective of expressing financial and compliance opinions on the accuracy and adequacy of total agency financial reports.

Reviewing internal controls is particularly important because of the government's renewed emphasis on agency internal controls pursuant to the Financial Integrity Act. When material weaknesses in internal controls are identified in OIG audits, we recommend that the IG require that the

audit report disclose whether or not these weaknesses were included in the agency's reporting under the Financial Integrity Act. This will make OIG audit reports more useful to OIG and other audit groups in subsequent work done under the act.

To ensure that field offices track audit recommendations until implementation, we recommend that the IG (1) instruct auditors on the OIG policy to keep recommendations open in the tracking system until corrective action has been taken and (2) require regional inspectors general to approve the closing of all recommendations.

To provide more understandable information in semiannual reports and to avoid overstating audit savings as well as questioned costs and loans, we recommend that the IG

- define questioned costs and loans to include only outlays which auditors believe should not be charged to programs and, potentially, may be paid back to the government;
- only show audit findings as savings when Agriculture management has implemented the OIG recommendations;
- clearly state that the "potential recoveries" are subject to reduction under debt collection procedures; and
- consistently define and use the same terminology in the various sections of the semiannual report.

Agency Comments and Our Evaluation

In a July 21, 1986, letter responding to a draft of this report, the deputy IG² said he was pleased with our assessment. He recognized the need to continually improve and fine-tune OIG operations. He thought our recommendations provided some excellent suggestions to help enhance OIG operations.

The deputy IG stated that he has started to implement all the recommendations except two. First, regarding the recommendation to strengthen quality controls over audit reports, the deputy IG said he will start a pilot project to test the costs and benefits of referencing before instituting a permanent policy.

Second, the deputy IG disagreed with our recommendation that the OIG semiannual report only show audit findings as savings when Agriculture

²Mr. Robert Beuley, the deputy IG, was carrying out the IG's responsibilities following Mr. John V. Graziano's retirement as IG on February 28, 1986. Mr. Beuley became the IG on August 11, 1986.

management has implemented the OIG recommendations. The deputy IG believes the current OIG process is consistent with the provisions of Office of Management and Budget (OMB) Circular A-50 on audit follow-up. The deputy IG suggests that we resolve this matter with OMB through the President's Council on Integrity and Efficiency (PCIE).

We believe our recommendation to change the semiannual report presentation is appropriate. It will avoid the impression that certain audits have resulted in money saved. Most of the reported OIG audit savings are management commitments to seek the recovery of funds or to use them more efficiently. The savings will occur only when management implements the recommendations.

We do not believe OMB Circular A-50 provides the OIG with justification for its method of reporting audit savings. The circular is silent about what audit organizations should report as savings. However, we pointed out in a 1984 report (see page 33) that audit organizations need a standard definition for reporting audit savings. We recommended that OMB provide the definition in Circular A-50. In response to our recommendation, OMB stated that definitions already are contained in semiannual reports prepared by the PCIE concerning the accomplishments of the inspectors general.

We believe the current PCIE method of presenting audit accomplishments is more appropriate and accurate than the method used by the Agriculture OIG. By contrast with Agriculture OIG reports, recent PCIE reports highlight IG accomplishments as management commitments to act on audits and do not refer to these commitments as savings. The PCIE reports define the type of information that it reports as management commitments.

We are sending a copy of this report to the Director, Office of Management and Budget, and are advising that he inform the IGs that the presentation of audit results in PCIE reports and the definitions used in the reports are appropriate for IG semiannual reports.

Assessment of the Investigation Function

The Inspector General Act of 1978 provides that inspectors general have the duty, among other things, to conduct investigations relating to programs and operations. Standards to guide the conduct of investigations and help ensure their quality have recently been prepared.

In 1984, the President's Council on Integrity and Efficiency issued Interim Quality Standards for Federal Offices of Inspector General, which applies to all OIG functions including investigations. In April 1985, the PCIE adopted Interim Professional Standards for Investigations to supplement the quality standards in guiding the operations of an OIG investigation function. We used the standards adopted by the PCIE in assessing OIG compliance. They are consistent with applicable Comptroller General's audit standards (e.g., staff qualifications, independence) but are more tailored to the investigation function.

Using this approach, we identified 11 categories of standards to assess the Agriculture OIG investigation function. (See appendix III.) To assess the investigation function in the 11 categories, we examined OIG written policies and procedures for conducting investigations, reviewed 31 sampled investigation cases, and tested the adequacy of certain OIG procedures designed to ensure quality in investigation work. We also sent a questionnaire to a sample of OIG investigators to solicit their views on subjects related to our assessment. Five of the 31 reviewed investigation cases were done by a special investigations unit in the OIG's Office of Security and Special Operations in Washington, D.C. The OIG's Office of Investigations conducted the other 26 investigations at its field offices.

The OIG satisfactorily complies with 9 of the 11 professional standards for conducting investigations in the areas we tested and needs to take actions to achieve compliance with 2 standards. Table 3.1 summarizes our observations for each standard reviewed.

Table 3.1: Observations of Compliance With Investigation Standards

Independence	The OIG satisfactorily complies with the standard with regard to organizational independence. Also, we found no evidence of external or personal impairments to independence in our reviews of OIG case records and financial disclosure statements prepared by investigators.
Planning	The OIG does not satisfactorily comply with the standard for either organizational planning or individual case planning.
Staff qualifications	The OIG satisfactorily complies with the standard with regard to investigator education, experience, training, and performance appraisals.
Directing and controlling	The OIG satisfactorily complies with the standard with regard to ensuring that individual investigations are adequately supervised.
Screening allegations	The OIG satisfactorily complies with the standard.
Coordination	The OIG satisfactorily complies with the standard.
Due professional care	The OIG satisfactorily complies with the standard with regard to gathering and reporting evidence in an unbiased and objective manner and retaining investigators' interview notes that are prepared in criminal investigations.
Reporting	The OIG satisfactorily complies with the standard with regard to preparing investigation and other reports and keeping departmental officials apprised of ongoing investigative work.
Information management	The OIG does not satisfactorily comply with one aspect of the information management standard which requires that investigation case records be properly maintained.
Quality assurance	The OIG satisfactorily complies with the standard.
Preserving confidentiality	The OIG satisfactorily complies with the standard.

Some internal control weaknesses that we identified for aspects of the standards have not been identified and corrected by the OIG pursuant to the Federal Managers' Financial Integrity Act of 1982.

Compliance With Standards

The following sections discuss our assessment of the OIG's compliance with investigation standards.

Independence

The standard on independence requires that the OIG and its investigators be free from impairments to doing their work and maintain an independent attitude and appearance. The standard places upon agencies, investigative organizations, and investigators the responsibility for maintaining independence so that judgments used in obtaining evidence, conducting interviews, and making recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Similar

to audit standards, the standard recognizes three types of impairments to independence: organizational, external, and personal.

The OIG satisfactorily complies with the organizational aspect of the independence standard. The organizational placement of the IG, directly reporting to the Secretary of Agriculture as prescribed by the Inspector General Act of 1978, locates the investigative unit outside the staff or line management of Agriculture organizations and people who might be subjects of investigations. For example, an official in an Agriculture agency which is being investigated has no authority over how the investigation is conducted. With regard to the investigative function being free of external impairments to independence, we did not find any evidence of interference in the OIG records of our 31 sampled investigations or in talking with investigators.

We determined if the OIG investigative staff is free from personal impairments to independence by reviewing the financial disclosure statements submitted to the OIG by at least one investigator assigned to each of our 31 sampled investigations. In each case, we found there was no apparent conflict between the financial disclosures and the investigator's role on the assignment.

At the Agriculture OIG, all investigators regardless of grade are required to file annual financial disclosure statements. We found that each investigator reviewed submitted the financial disclosure statements as required for years corresponding to time periods covered by the investigations in our sample and that the OIG's designated personnel officer reviewed and signed the statements.

Planning

The standard calls for a planning system to determine programs and operations where investigations are needed, establish goals and tasks to be accomplished within a specific time period, and ensure investigations are conducted efficiently and effectively. The standard says the OIG should develop a strategy for screening agency programs and operations for review and consider the likely benefits of its work. The planning standard makes the OIG responsible for (1) organizational planning, which sets priorities for the investigative function's work, and (2) individual case planning, which requires the preparation of an investigative plan of action for each case.

The OIG does not satisfactorily comply with the standard for either organizational planning or individual case planning.

The OIG's investigative function has not developed a written organization plan. We think that preparing a written statement of organizational priorities and goals is an effective means for establishing and communicating OIG policy in this area. Planning for the OIG investigative function probably cannot be as certain as planning can be for other OIG functions, such as audits, because investigators react after crimes have been committed. However, a written organizational plan can be a useful tool for providing the IG and investigators with a common understanding of their goals and priorities. The investigative function has a planning procedure that yearly establishes national goals, which are communicated verbally to its managers. The goals are expressed as percentages of investigators' time devoted to work in each Agriculture agency. They are based on historical data of investigators' time and on an assessment of any changes in Agriculture programs. The goals are not expressed for each investigative field office and do not specify how each office should contribute to attaining the goals.

We think this planning procedure needs improvements to satisfactorily comply with the organizational planning aspect of the standards. To help ensure that the national goals are met, the OIG should explain (1) how the goals relate to overall OIG strategies for program improvements, (2) how each investigative field office would contribute to attaining the goals, and (3) why the goals are important. The goals' importance could be expressed in terms of expected accomplishments, benefits, or results, such as reducing the incidence of fraud in certain programs, highlighting an absence of reasonable internal controls, devoting more resources to major fraud cases, or increasing the dollar amounts of actions resulting from investigative work.

A written plan would also provide a sound basis for setting priorities, justifying budget requests, and estimating staff needs. The investigative function's budget submissions for fiscal years 1985 and 1986 discuss staff needs primarily in terms of what work would or would not be done by increasing or decreasing staffing levels and do not state why the work is important with regard to the function's goals and the goals' expected results or benefits. The acting assistant inspector general for investigations told us his office is considering ways to do comprehensive planning, but we did not review this work.

The OIG also needs to prepare individual investigation plans for more cases to comply satisfactorily with that portion of the planning standard. Of the 31 investigations reviewed, 8 had plans; 23 did not have plans. We considered a plan to be any document stating what tasks

OIG investigators would perform in an investigation. Although the standard calls for a plan for each investigation, plans are especially important for investigations that are relatively complex or are conducted by inexperienced investigators. We did not see evidence of plans in six investigations where we thought they would have been especially important. For example, in one of the six cases, the OIG investigated an official's alleged misuse of cooperative agreements, which are a type of federal monetary assistance. According to the allegation, the official circumvented personnel regulations by using the agreements to contract for individuals' personal services. This work took 90 staff days to complete. We think an assignment plan in this case would have helped (1) investigators to better identify and assess the nature of the issues raised by the allegation and to focus on case objectives and (2) managers to provide input at the outset of the investigation and to monitor progress toward completing the investigation.

The OIG's top investigation officials told us that they expect written plans for each investigation and that this has been a long-standing OIG policy. Other OIG staff told us they did not think written plans were required. An OIG directive of February 1985 makes the preparation of written plans mandatory. The acting assistant inspector general for investigations told us that, before the directive's promulgation, other OIG directives gave the impression written plans were optional.

Staff Qualifications

The standard requires that the investigative staff collectively possess professional proficiency to conduct investigations. The standard points out that every investigator does not need to be skilled in all investigation techniques, but that the OIG should employ investigators who collectively can carry out the OIG investigation mission. With that in mind, the standard places a responsibility on the OIG to employ qualified people, provide training, and evaluate performance. The standard recognizes that certain federal laws and regulations govern staff qualifications.

The OIG satisfactorily complies with this standard. To determine if the OIG employs qualified people, we determined if the investigators assigned to our 31 sampled investigations were classified in the GS-1811 criminal investigator career series and reviewed their duties on the investigations to see if they matched the federal Office of Personnel Management's description of work in the series. We found that all the investigators were classified in the GS-1811 series and that their duties matched the description of work in the series.

We also reviewed the education and experience of all 16 persons hired by the OIG as GS-1811 criminal investigators from November 1984 through September 1985 to determine if they were qualified for their positions. To qualify as a GS-1811 criminal investigator, persons must satisfy the Office of Personnel Management's education and/or experience requirements for the career series, which include general experience, such as investigating insurance claims, and specialized experience, such as investigating criminal cases. We found that 14 of the 16 newly hired investigators had the specialized experience required for the grade levels at which they were hired. Two did not have the required specialized experience. We discussed these individuals' qualifications with Agriculture personnel officials, who confirmed that they did not have the required specialized experience. We think the hiring of these two individuals was an exception which occurred principally due to unclear responsibilities when aspects of the OIG's personnel functions were being consolidated into a Department of Agriculture personnel office. Apparently, the OIG has found these persons' work acceptable because both individuals were subsequently promoted.

To assess the OIG's training program, we (1) determined if the investigators in our 31 investigations had training or experience that prepared them for their assigned tasks in the investigations, (2) examined the training records of a sample of 30 OIG investigators we randomly selected to see if they had received training specified in the OIG's training plan, and (3) reviewed the training plan to see if it satisfies the PCIE's training guidelines. We found that all the investigators in our 31 investigations had training or experience that prepared them for their assigned tasks. We also found that each of the 30 investigators in our random sample had taken one or more of the courses listed in the OIG's training plan. For example, the plan calls for entry-level investigators to complete a basic criminal investigator course. All 30 investigators had either taken such a course or been granted a waiver by the IG because of previous experience.

However, improvements are needed in the OIG training plan for investigators. The plan does not apply to investigators in the special investigations unit, who have no training plan. Although these staff have received training, we think the OIG should review its existing program to ensure it addresses the training needs of all its staff and consider developing a training plan for all investigators.

The current training plan lists courses for investigators at different grade levels but does not indicate whether any courses are mandatory.

One course in the plan has not been offered by the OIG since 1981; another course has not been offered in over 2 years. The plan does not state if investigators need to take these or other courses. If the OIG believes particular courses are essential, we believe it should note the courses' importance in the training plan and ensure the courses are available. If the training is not mandatory, we think the OIG should note that the training is optional.

Finally, the OIG's plan does not include some courses listed in the PCIE's training guidelines, such as computer fraud and financial investigations. We believe the OIG should reexamine its existing plan and consider adding training specified by the PCIE guidelines which are consistent with its own needs.

Eighty percent of the 78 investigators who answered our questionnaire thought that training in the last 2 years had adequately prepared them to do their work. Nineteen percent thought the training had not adequately prepared them and 1 percent were undecided.

To assess the OIG's performance appraisal program, we reviewed the performance appraisals given the 30 investigators in our random sample to see if they had received appraisals for the past 2 years. We found that all except one newly-hired investigator had received at least one performance appraisal during this period and that most had received two appraisals. The appraisals noted differing levels of performance on several performance elements, such as case planning, interviewing, records review, and report writing. The OIG considers some elements to be critical. If an investigator scores below acceptable on a critical element, a performance improvement plan is prepared showing work deficiencies, areas needing improvement, and recommended training to correct deficiencies. Such a plan was not prepared in one case where it should have been prepared. However, we think this case was an exception, which occurred due to a supervisor's misunderstanding of OIG requirements. We noted such plans were prepared in other cases when investigators' performances were judged below acceptable.

Seventy-seven percent of investigators responding to our staff questionnaire thought their supervisors or other responsible officials during the past 2 years had discussed the performance appraisals with them in sufficient detail to provide a clear understanding of strengths and of needed improvements in their work. However, 17 percent did not think the discussions were sufficient and 6 percent were undecided.

Directing and Controlling

The standard requires that the IG and his staff direct and control OIG operations to ensure that all activities are adequately supervised.

The OIG satisfactorily complies with the standard. Based on reviewing case records and interviewing OIG staff for our sample of 31 investigations, we found in each case that the investigators received appropriate supervision at the outset of and during the investigation and on-the-job training when appropriate. We also found that supervisors adequately reviewed case records.

In our staff questionnaire, we asked investigators about several aspects of supervisory performance and reviews. Generally, they supported our observation that supervision is adequate. Eighty-four percent of the investigators said that supervision was adequate or more than adequate in such aspects as planning the assignment, assuring the adequacy of evidence, and assuring compliance with professional standards. Eleven percent said it was marginally adequate in those areas, and 5 percent said it was inadequate or very inadequate.

Screening Allegations

The standard requires that the OIG establish and maintain a well-publicized system for receiving, controlling, and screening allegations from agency employees and other interested persons. Also, the standard requires that allegations be promptly screened for appropriate disposition.

The OIG satisfactorily complies with this standard. The OIG has had a hotline and post office box to receive allegations since 1979. The OIG publicizes this operation with posters, business cards, and a listing in the department telephone directory.

In a judgmental sample of 48 hotline calls, we found that it took an average of 8 days for the OIG to refer allegations to investigators or others or to determine that no action was necessary. The time periods ranged from the day a call was received for 2 calls to 48 days after the call in one instance.

The hotline staff only records calls that they regard as substantive. For example, callers' requests for information or opinions are not written up. Of the 48 calls in our sample, 27 were referred to Agriculture's Food and Nutrition Service because they involved alleged food stamp program violations. Of the remaining 21 calls, the OIG opened investigations for 4, is considering work on 2, referred 10 to other officials to obtain

responses, and did not refer 5 because there was insufficient information to act. The OIG records indicate that investigated allegations include alleged travel abuse and the transfer of an employee to keep him from aiding the OIG in another investigation. The allegations referred to other officials include an employee's alleged unprofessional behavior and the use of government stationery for personal use. Referred allegations are followed up by the hotline staff. Since this subject also relates to the coordination standard, we discussed it further under that standard on this page. In our opinion, the OIG screening of these hotline calls was appropriate.

Coordination

The standard requires that the OIG coordinate its investigations with other OIG activities and with other government organizations to ensure effective and efficient use of resources. The OIG should also be alert to situations where identified problems might affect other offices or agencies and take steps to minimize duplicative work. Coordination should continue after investigations are completed to ensure that necessary action is taken.

The OIG satisfactorily complies with this standard. Each of the 31 investigations we reviewed was satisfactorily coordinated with other OIG functions and investigative organizations. For example, in one case an OIG investigator coordinated with two other offices to facilitate his work. The case concerned an Agricultural Stabilization and Conservation Service official who allegedly engaged in travel abuse and prohibited political activities. Because the activities may have been a violation under the Hatch Act, the OIG coordinated its efforts with the federal Merit Systems Protection Board, whose special counsel investigates such activities. During the investigation, the official tried to restrict the investigator's access to records and people. As a result, the OIG notified Agricultural Stabilization and Conservation Service headquarters officials of this problem and gained freer access to the needed information.

We also reviewed the OIG's system for referring matters to Agriculture officials and monitoring the way they resolve the matters. Referred matters include issues that do not necessitate an OIG investigation to resolve. We found that 33 of the 48 sampled hotline calls discussed under the screening-allegations standard on page 51 were referred to Agriculture officials for action and that the officials notified the OIG of actions they intended to take on the matters. If the officials reviewed the matter, we found that they also notified the OIG on the review results and actions taken.

The OIG also has agreements with several Agriculture agencies, the U.S. Secret Service, and the Federal Bureau of Investigation defining investigative jurisdictions. We did not assess the extent to which the OIG adheres to the agreements.

Due Professional Care

The standard requires that investigators perform their work with “due professional care” as well as promptly, efficiently, thoroughly, and legally. Although the term “due professional care” is not defined, the standard requires the investigation function to

- gather and report evidence in an unbiased and objective manner in an effort to develop all the facts bearing on an issue,
- retain, at least until final disposition of the case, investigators’ interview notes that are prepared in a criminal investigation, and
- conduct and report on investigations promptly.

The OIG investigation function satisfactorily complies with the due professional care standard. We found that in each of the 31 sampled investigations, investigators adequately gathered and reported evidence in an unbiased and objective manner which was responsive to the allegations. To make our judgments, we reviewed OIG case records and interviewed OIG officials to determine if investigators followed logical and reasonable leads to collect information that might be used in deciding the merits of allegations. We also asked persons who used the 31 OIG investigation reports for their impressions of the OIG’s work. In 27 cases where users offered opinions, they expressed their satisfaction with the work.

We also reviewed case records to see if they contained notes investigators had taken when they interviewed suspects and witnesses during an investigation of an alleged crime. In all except 2 of 30 sampled criminal investigations where investigators told us they had taken interview notes, we found the notes were with the case records. Retention of notes is important because courts have ruled such notes are discoverable evidence, that is, they can be reviewed by defendants or may be required to be produced at a trial. Because the courts have held that the government is obligated to follow procedures designed to preserve all discoverable evidence, the failure to maintain interview notes could result in dismissal of a criminal indictment. Neither of the two cases without notes was affected because neither case was tried. In one investigation where the subject pled guilty before trial, the investigator told us the notes had probably been presented to the grand jury as evidence. We could not

verify this because the case records contained no information on the notes' disposition.

In the other case, in which the investigator said the notes should be in the case records, the matter was not referred to the U.S. attorney's office for prosecutorial consideration. In that case, the OIG ended its investigation when a complainant refused to cooperate and the investigation subject denied the alleged wrongdoing. We could not determine why the notes were not in the case records because, like the first case, the records contained no information on the notes' disposition.

The OIG written policy on retaining records, such as investigator's notes, specifies that records be retained 10 years. However, the policy does not require that case files be annotated when notes are transferred from them. We believe that this requirement should be added to OIG policy to preclude situations similar to those just discussed.

The due professional care standard does not define a timely investigation. However, we contacted OIG investigation report users to get their opinions on the timeliness of the OIG's work. In 22 of the 31 sampled cases where report users commented on timeliness, they said the OIG's work was timely. Based on their opinions, we believe the OIG satisfactorily complies with this aspect of the standard.

Reporting

The standard requires that the OIG keep agency managers and the Congress fully and currently informed of appropriate aspects of OIG investigative work. Also, reports prepared for individual investigative cases should discuss all relevant issues and be accurate, objective, timely, and well-organized. Timeliness is also an element under the due-professional-care standard, and we report our observations about timeliness under that standard instead of this one.

The OIG satisfactorily complies with each aspect of the reporting standard. For example, we found that all 31 sampled investigations had reports that were well-prepared. We based our judgments on reading the reports to determine whether they were concise, complete, consistent with information in the investigation records, objective in presentation of relevant information, free of jargon, and understandable. We also found that in each case, agency officials were advised about the investigation where appropriate.

In addition, we reviewed investigation summaries in the IG's two semiannual reports for fiscal year 1985 and found the information was consistent with OIG records pertaining to the investigations and accomplishments.

We also found that the reports' information on the total number of indictments (570) and convictions (626) and the amount of fines, restitutions, and recoveries (\$14,780,493) was generally consistent with other OIG data. To test the accuracy of this information, we judgmentally selected 80 investigation cases that the OIG used to compile the information involving 159 indictments, 133 convictions, and about 75 percent of the total reported fines, restitutions, and recoveries, to see if pertinent investigation case records contained documentation to substantiate the reported actions. We found that in all except 6 of the 80 cases, the case records contained documentation for the actions or OIG officials provided other documents to support the actions.

In two of the six cases, the case records did not contain documentation to substantiate a recovery of \$568,000 and five convictions, and OIG officials could not provide other documents for the actions. In two other cases, OIG records showed that fines of \$430,000 and \$146,000 had been overreported by \$387,000 and \$1,000, respectively. In another case, a \$166,000 restitution had been overreported by \$4,000. Finally, OIG records showed that in one case there were three rather than six convictions. The OIG officials told us they thought the discrepancies in the last four cases were due to recording errors.

Information Management

The standard requires that the OIG store the results of investigations in a manner which allows effective retrieval, cross-referencing, and analysis. According to this standard, the OIG should have

- a system for maintaining investigative case records,
- an index system for accessing investigative case records,
- a system for receiving and processing complaints about department operations,
- criteria on when to initiate an investigation or pursue another course of action, and
- information to perform its responsibilities and to measure its accomplishments.

The OIG satisfactorily complies with the information management standard in some ways. The OIG has established

- a filing system for investigative records, which permits their retrieval by case number or by subject;
- a system for receiving and processing complaints about department operations;
- guidelines on when allegations should be investigated, should be referred elsewhere, or require no action; and
- a management information system which includes statistics on investigative work load, convictions, indictments, and monetary results.

In addition, for the 31 investigations reviewed, the OIG filing system contained pertinent records in official case files. The files are maintained in OIG field offices or in the OIG file room in Washington.

One area needing correction to satisfactorily comply with the standard is the OIG's system for maintaining investigation case records in Washington. Out of a separate sample of 43 special investigations unit case files closed by the OIG from October 1984 through June 1985, OIG officials could not locate five case files during the period of our review. However, 2 months after our review and 4 months after requesting these case files from an assistant inspector general, OIG staff told us that they had found four of the five cases misfiled in the Washington file room. A special investigations unit supervisor told us that case records are placed in a box for pickup by file room personnel. However, no record is kept to document transferring custody of the case records. Although most case files were found, we think their absence in one case and delay in locating four others are significant and warrant correction because proper records maintenance is the basis for other information management activities.

We also found information management problems in the Washington file room's index system, which is used by investigators in OIG headquarters to identify and retrieve specific OIG case records by subject. OIG staff can use the system to see if the OIG has previously investigated a person, firm, or other entity and retrieve any applicable case records. We tried to locate 27 names from cases that we had selected, but we had difficulties finding 5 and could not find 2 others because part of the index system consisted of about 10,000 unalphabetized cards stored in a box. During our review, the OIG revised the index system by computerizing the information. The OIG had begun to use the revised system by the end of June 1986. We believe no further corrective action is needed.

Quality Assurance

The standard requires that the OIG establish and maintain a quality-assurance program. The standard defines quality assurance as an evaluative effort conducted by reviewers external to the units being reviewed to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively.

The OIG satisfactorily complies with this standard. In 1981, the OIG established a quality-assurance program for its investigation function, which assesses compliance with OIG policies, procedures, and regulations; operational and administrative efficiency and effectiveness; and compliance with performance standards. The program consists of operational and internal control reviews. The operational reviews are comprehensive reviews of OIG units which assess several identified systems and functions, such as investigative management and reporting, accountability over assets, reporting investigation results, and personnel management. The internal control reviews are more limited in scope and focus on only a few functions. Since 1981, the OIG has conducted operational reviews of five of its seven field offices and plans to review the remaining offices this fiscal year.

In a sample of three operational reviews, we read the review reports and found that the reviews objectively evaluated the offices. We also found that the reviews were conducted at the locations of the reviewed units by teams of several investigators from other OIG units. In two cases, follow-up reviews determined if review recommendations had been or were being implemented. A follow-up review is planned for the remaining office. We also noted that, although the reviews assessed aspects of the units' operational efficiency and effectiveness as well as compliance with established performance standards, they predominantly assessed the units' compliance with OIG policies, procedures, and regulations. When the OIG began its quality-assurance program, the PCIE had not yet adopted standards for investigations. We think the OIG should reexamine its operational review guidelines and redesign them to ensure a more comprehensive quality-assurance effort by including more tests of operational efficiency and effectiveness as well as compliance with the PCIE's investigation standards.

Although the OIG has reviewed or plans to review all of its field offices, it has no plan to conduct a comprehensive review of its special investigations unit in Washington. We believe the OIG should extend its quality-assurance program to include this unit in order to ensure that all investigative activities are evaluated. Although the special investigations unit

does fewer investigations than the field offices, it is responsible for investigating high-level Agriculture officials and other critical and sensitive matters. The IG, then Mr. Graziano, told us that if he included the special investigations unit in the quality-assurance program, he would have staff who report to his assistant for investigations conduct the reviews.

Preserving Confidentiality

The standard requires that the OIG establish and follow procedures for safeguarding the identity of confidential sources and protecting confidential information. Information furnished to the OIG by a confidential source shall not be disclosed without the source's consent unless the IG determines the disclosure is unavoidable. The standard also requires the OIG to establish appropriate safeguards for records identifying confidential sources and to establish procedures for releasing agency records to the public, within the framework of applicable laws and regulations. The standard does not specify what safeguards an OIG should have to protect the identities of confidential sources.

The OIG satisfactorily complies with this standard. The OIG has a system for safeguarding the identities of confidential sources. It requires OIG staff to keep documents which identify such persons in special files kept separate from case records. OIG officials identified three investigation cases with confidential sources closed since October 1983. One of these was in our sample of 31 investigations. Also, in reviewing the sampled cases, we found another investigation which had a confidential source. Thus, we reviewed a total of four cases with confidential sources. We reviewed the case records and found no information which would identify the confidential sources.

OIG Self-Assessment of Internal Controls

The OIG annually assesses its operations for vulnerabilities to fraud, waste, and mismanagement to comply with the Federal Managers' Financial Integrity Act of 1982. The OIG schedules internal control reviews for those areas rated highly vulnerable. However, the OIG thus far has not identified and corrected the types of internal control weaknesses that we identified in this review. For example, the OIG judged that the areas "records management and maintenance" and "records system management" had low vulnerability in 1984 and 1985 self-assessments and did not conduct internal control reviews for them. The OIG also reported that "investigative management and control" was moderately vulnerable and did not conduct an internal control review of this area.

Conclusions and Recommendations

In 9 of the 11 standards, the OIG satisfactorily complies with professional standards for investigations in areas that we tested. However, correction is needed to help the OIG satisfactorily comply with aspects of the standards for planning and information management. While the OIG in some instances does not satisfactorily comply with the standards, we did not identify any instances in the cases we reviewed where there was cause to question the OIG's findings.

To assist the OIG in satisfactorily complying with certain aspects of the standards, we recommend that the IG

- direct the assistant inspector general for investigations to prepare a written plan for the investigation function, specifying the goals, objectives, or tasks to be accomplished by his office within a specific time and the benefits, accomplishments, or results to be derived from attaining the goals;
- instruct supervisors and investigators on the OIG policy requiring investigation plans for individual cases; and
- establish a procedure for documenting the custody of special investigations unit case records being sent to the Washington file room.

To improve the training program for OIG investigators, we recommend that the IG review the existing training plan for investigators and consider revising it to ensure the plan (1) applies to all investigative staff, including special investigations unit investigators, (2) states which training is mandatory for investigators, and (3) includes training topics specified by PCIE guidelines, which are consistent with OIG needs.

We also recommend that the IG expand the OIG policy on retaining interview notes by requiring that investigative case files be annotated when investigator's interview notes are removed from them.

To help ensure the quality of all OIG investigative activities, we recommend that the IG extend the quality-assurance program to include evaluating the investigative work done by the special investigations unit in Washington. Also, we recommend that the IG redesign the guidelines for conducting operational reviews of OIG units to ensure more comprehensive quality assurance by including more tests of operational efficiency and effectiveness as well as compliance with PCIE standards for investigations.

Agency Comments

In commenting on a draft of this report, the deputy IG, who is now IG, said he was pleased with our assessment and has started to implement the recommendations in this chapter.

Additional Details of Our Objectives, Scope, and Methodology

Our “quality assessment review” objectives were to determine whether the Agriculture OIG conducts audits in accordance with generally accepted government auditing standards and other standards and whether it conducts investigations in accordance with standards adopted by the President’s Council on Integrity and Efficiency (PCIE), whose membership includes the statutory inspectors general. Our approach involved evaluating the OIG’s controls for ensuring adherence to the standards; reviewing a sample of reports and work-paper files for recently completed assignments; sending a questionnaire to a sample of the OIG auditors and investigators; and reviewing, testing, and evaluating other evidence of OIG compliance with the standards. The review is largely a compliance evaluation that does not evaluate the economy, efficiency, and effectiveness of the OIG. We did not redo any of the audits or investigations. However, in reviewing the OIG, we also looked at the scope of the OIG’s audit coverage, the OIG’s role in assisting Agriculture to implement the Federal Managers’ Financial Integrity Act of 1982, and the accuracy and presentation of information in the OIG’s semi-annual reports to the Congress.

We measured the OIG’s audit function against generally accepted government auditing standards, which are contained in the Comptroller General’s Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, revised in 1981. We measured the OIG’s investigative function against the PCIE’s Interim Quality Standards for Federal Offices of Inspector General, issued in September 1984, and the PCIE’s Interim Professional Standards for Investigations, adopted in April 1985 for use in conjunction with the quality standards. We also used the PCIE quality standards as a basis for evaluating quality assurance and organizational planning in the OIG audit function. In addition, we evaluated audit planning for compliance with Office of Management and Budget Circular A-73, “Audit of Federal Operations and Programs,” which provides guidelines to OIGs. For our review of both the audit and investigation functions, we categorized the standards. See appendixes II and III for tables showing the standards used to assess the audit and investigation functions.

Our review approach for this report is essentially the same one we used in our first “quality assessment review” of the Department of Commerce OIG, completed in August 1985. In developing the approach for the first review, we discussed the review methodology and criteria with the various statutory inspectors general, who generally concurred that our approach was sound and logical. In addition, we requested comments on

our review guidelines from the inspectors general, the American Institute of Certified Public Accountants, selected state auditors, intergovernmental audit forums, and public accounting firms. Most comments stated that the guidelines were very thorough and comprehensive. For a more detailed discussion on how we developed our review approach, refer to our report on the Commerce OIG, Compliance With Professional Standards by the Commerce Inspector General (GAO/AFMD-85-57, August 12, 1985).

We modified our approach in some ways after our review of the Commerce OIG in order to broaden our coverage and to make our review more efficient. For example, we revised our guidelines to include a review of financial disclosure information to determine if there were any conflicts of interest involving auditors and investigators working on the sample of OIG assignments that we reviewed. Also, we contacted individuals who used OIG reports and asked them for their views on OIG work quality and report timeliness. We also reviewed the scope of OIG audit coverage of the department and the accuracy and presentation of information in the IG's semiannual reports to the Congress. In addition, we revised our questionnaire to OIG staff to include questions that we thought would better help us achieve our review objectives.

As in our first review, we selected a sample of audits and investigations to review. For the audit sample, we obtained an OIG-generated list of 231 audit reports issued between October 1, 1984, and June 30, 1985, and we verified its accuracy by comparing the list with reports filed in an OIG report library. Also, we identified the OIG regional office that was responsible for each report. For the Chicago, Atlanta, Temple (Texas), and Hyattsville (Maryland) regional offices and the financial management audit staff in Kansas City (Missouri), we classified audits as large (over 300 staff days), medium (101 to 300 staff days), and small (100 staff days or less). Judgmentally, we determined how many audits to select for review from each regional office and classification, and we selected 34 audits using random numbers. We evaluated each selected audit against key aspects of the auditing standards.

For the investigation sample, we obtained an OIG-generated list of 1,262 cases completed between October 1, 1984, and June 30, 1985. We verified its accuracy by comparing this list with other OIG records maintained on each case. The OIG list was divided by regional offices and the OIG's special investigations unit in Washington, D.C. For the Chicago, Atlanta, and Temple regional offices and the special investigations unit, we classified the investigations as large (70 or more staff days), medium

(21 to 69 staff days), and small (20 staff days or less). Judgmentally, we determined how many cases to select for review from each office and classification, and we selected 31 investigations using random numbers. We evaluated each selected investigation against key aspects of the investigation standards.

In addition to our reviews of a sample of audits and investigations, we solicited OIG audit and investigation staff views on training, performance appraisals, supervision, and OIG independence. We sent the questionnaire to a randomly selected group of 218 staff members employed as of May 24, 1985, or about one-third of OIG auditors and investigators. Our selections excluded OIG policymakers such as the IG, deputy IG, and the assistant and deputy assistant IGs; and support staff such as counsel, administration, and clerical staff. We received 195 responses, for a response rate of about 90 percent. Respondents included 115 auditors and 78 investigators. The responses were anonymous, thus we were unable to verify responses or explain why responses sometimes varied from our own observations.

We also reviewed the OIG's controls for ensuring adherence to the standards. This included reviewing written policies and procedures for implementing the standards and the systems designed for ensuring adherence. We discussed potential weaknesses with OIG policymakers.

In addition, we performed other work to evaluate the OIG's adherence to standards. For example, we sampled hotline calls to determine if the calls were appropriately screened. Also, we reviewed the OIG's annual audit planning process to ascertain if the OIG complied with OMB Circular A-73, "Audit of Federal Operations and Programs," and PCIE quality standards.

Our work was primarily done in the OIG's headquarters in Washington, D.C., and four of the OIG's seven regional offices located in Chicago, Atlanta, Temple, and Hyattsville. We also reviewed three audits conducted by the financial management audit staff located in Kansas City.

Standards Used for Assessing OIG Audit Function

Categories	Comptroller General audit standards^a
Staff qualifications	Qualifications
Independence	Independence Scope impairments
Individual job planning	Planning
Annual audit planning ^b	No standard
Supervision	Supervision Due professional care
Legal and regulatory requirements	Legal and regulatory requirements
Internal controls	Internal controls Auditing computer based systems Due professional care
Evidence	Evidence Working papers Due professional care
Fraud, abuse, and illegal acts	Fraud, abuse and illegal acts
Reporting	Reporting
Audit follow-up	Due professional care
Quality assurance ^c	No standard

^aComptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

^bWe assessed this category against the planning standard contained in the PCIE Interim Quality Standards for Federal Offices of Inspector General and OMB Circular A-73, "Audit of Federal Operations and Programs."

^cWe assessed this category against the quality-assurance standard contained in the PCIE Interim Quality Standards for Federal Offices of Inspector General.

Standards Used for Assessing OIG Investigation Function

Categories	PCIE quality standards^a	PCIE investigation standards^b
Staff qualifications	Assuring staff qualifications	Qualifications
Independence	Maintaining independence	Independence
Planning	Planning	Planning
Due professional care	No standard	Due professional care Execution
Directing and controlling	Directing and controlling	No standard
Coordination	Coordinating	No standard
Reporting	Reporting	Reporting
Preserving confidentiality	Preserving confidentiality	No standard
Screening allegations	Receiving, controlling, and screening allegations	Information management
Information management	No standard	Information management
Quality assurance	Maintaining quality assurance	No standard

^aPCIE Interim Quality Standards for Federal Offices of Inspector General.

^bPCIE Interim Professional Standards for Investigations.

Comments From the Department of Agriculture



United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

July 21, 1986


Mr. Frederick D. Wolf
Director, Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, D.C. 20438

Dear Mr. Wolf:

We appreciate and are pleased that GAO's independent assessment shows that the Office of Inspector General (OIG) is doing a credible job. An objective analysis of our operations is beneficial to provide additional assurance that our control mechanisms are adequate and functioning. We were also pleased that your assessment did reflect that we consistently strive to meet the professional standards and that the errors found did not have a significant impact on our report findings and conclusions.

We recognize the need to continually improve and fine-tune our operations. The GAO recommendations provide some excellent suggestions to help enhance our operations. We have started to implement all the recommendations except two. We will start a pilot project to test the cost/benefit feature of independent referencing of all audit reports before we institute a permanent policy on this issue. We disagree with the recommendation that our semiannual report should "only show audit figures as savings when Agriculture management has implemented the OIG recommendations." We believe our process is consistent with the provisions of OMB Circular A-50, Audit Followup. We suggest that GAO resolve this matter with OMB through the President's Council on Integrity and Efficiency.

Sincerely,


ROBERT W. BEULEY
Deputy Inspector General

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