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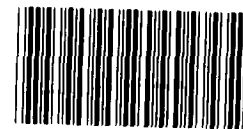
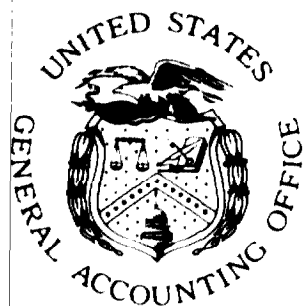
Report To The Director, U.S. Arms Control And Disarmament Agency

Need For Internal Control Improvements At ACDA, Including Adequate Internal Audit Coverage

ACDA is required to comply with the Federal Managers Financial Integrity Act of 1982 and to maintain effective internal controls over its activities, including providing adequate internal audit coverage (31 USC 3512).

ACDA has internal control weaknesses and has not established the expanded-scope audit coverage it needs. After GAO started its work, ACDA began to improve operations; however, it needs to do more to comply with executive branch directives on internal controls and internal audit. Further, GAO's work also showed that ACDA needs to resolve the differences in assigned versus performed verification duties and to assess the requirements of its authorizing legislation.

GAO recommends that ACDA (1) establish an internal control system and provide internal audit coverage in accordance with legislative requirements and administrative directives, and (2) correct other internal control problems addressed in the report.



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GAO/NSIAD-83-68
SEPTEMBER 30, 1983

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-212009

The Honorable Kenneth L. Adelman
Director, Arms Control and Disarmament Agency

Dear Mr. Adelman:

Following our testimony in March 1983 before the Subcommittee on International Security and Scientific Affairs, House Foreign Affairs Committee, the Chairman and Ranking Minority Member of the Subcommittee asked us to examine certain aspects of the Arms Control and Disarmament Agency (ACDA). This report, which discusses internal controls and internal audit, is one in a series of three reports addressing issues raised by the Subcommittee.

Although relatively small, ACDA is an executive branch agency and, therefore, obligated to comply fully with the legislative and administrative requirements related to internal controls, including internal audit. Internal controls include the entire system of organization, policies, and procedures used in managing an agency's affairs. Such a system begins with delegated authority and planned operations, and continues through performance and internal reporting on performance. A well-designed system of control helps to ensure efficiency, economy, and achievement of planned results. It should be well-documented, effectively conveyed to all personnel, and reviewed by management on a continuing basis.

Our work focused on whether ACDA was complying with legislative and administrative directives on internal controls and internal audit. We found that, although ACDA has established many internal controls, it needs to implement important internal control requirements, including those related to internal audit coverage. Also, ACDA needs to address other management issues, such as resolving differences in assigned versus performed verification duties and thoroughly analyzing its authorizing legislation. The objective and scope of our work, and the methods we used are summarized in appendix I.

BACKGROUND

Since the early 1950s, executive branch agencies have been responsible for maintaining internal controls over operations, including internal audit. 31 U.S.C. 3512(a)(3) requires executive branch agencies to:

establish and maintain systems of accounting and internal controls that provide* * *effective control over, and accountability for, assets for which the agency is responsible, including appropriate internal audit."

Over the years, we have issued numerous publications to guide agencies in establishing and maintaining their internal control systems; and the Office of Management and Budget (OMB) issued Circular A-123 in October 1981, prescribing policies and standards to be followed by executive branch agencies in designing, installing and maintaining their internal control systems. In spite of these actions, numerous problems continued throughout the Government, dramatically demonstrating the need for better, more effective internal controls. Consequently, increased attention has been focused recently on improving controls over Government operations.

The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) directs renewed emphasis on the need to strengthen internal controls. Among other things, the Act requires that agencies' internal control systems be established in accordance with our standards; and be periodically evaluated and annually reported on by the heads of executive agencies in accordance with OMB guidelines. Of primary importance is executive agency awareness of weaknesses in existing controls and the identification of such weaknesses for corrective action.

ACDA NEEDS TO IMPLEMENT KEY
INTERNAL CONTROL REQUIREMENTS

As a forerunner to the Federal Managers' Financial Integrity Act of 1982, OMB Circular A-123 identified many basic design features and standards for internal control systems. Their implementation would allow agencies to be in a better position to meet the requirements of the recent legislation. For example, design features such as adequate, written organizational documentation is important to receiving a favorable evaluation under OMB's evaluation guidelines.

When we started our review in April 1983, ACDA had not yet begun to implement A-123. As noted later in this report, our work disclosed problems with such basic internal controls as assigning and implementing organizational responsibilities. Consequently, we focused on A-123 implementation since problems in this area would adversely affect ACDA's ability to comply with the Federal Managers' Financial Integrity Act of 1982.

A-123 specifically directs that, among other things, each agency prepare an internal control directive which:

- sets out the frequency of internal control reviews;
- provides for a vulnerability assessment plan;
- establishes specific responsibilities for seeing that agency internal control systems are developed, maintained, evaluated, and improved as necessary in accordance with the internal control guidelines; and
- assigns responsibility for internal control to specific officials in each organizational component.

After our work began, ACDA started implementing certain aspects of the OMB guidance. For example, ACDA met with OMB officials concerning ACDA's planned program for compliance and

- established an Internal Control Committee to coordinate guidance, develop procedures for conducting reviews, and supervise review and assessment activity;
- assigned responsibility for internal control to key officials; and
- prepared an internal control plan.

Also, ACDA officials told us they planned to do vulnerability assessments and internal control reviews, and report their results to the Director.

ACDA HAS NOT HAD THE
EXPANDED SCOPE INTERNAL
AUDIT COVERAGE IT NEEDS

OMB Circular A-73 dated March 1978 "Audit of Federal Operations and Programs", revised June 20, 1983, was issued to promote audit practices, achieve more efficient use of audit staff, improve coordination of audits, and emphasize the need for early audit of new or substantially changed programs. Although the Circular applies to all executive branch agencies and includes all of their audit functions, ACDA has not implemented its provisions.

A-73 directs, among other things, that each agency

- establish procedures requiring periodic review of its programs and operations to determine coverage, frequency, and priority of audit required for each program;

--issue policies, plans, and procedures for the guidance of its auditors; and

--prepare an audit plan at least annually.

A-73 defines an audit as a systematic review or appraisal that determines and reports on various aspects of agency programs and operations. Further, A-73 requires the audit function to be conducted in accordance with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and have sufficient scope to cover the following elements.

1. Financial and compliance--determine (1) whether financial statements present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (2) whether laws and regulations that may have a material effect upon the financial statements have been properly implemented.
2. Economy and efficiency--determine (1) whether resources (such as personnel, property, space) are being managed and used economically and efficiently; (2) the causes of inefficiencies or uneconomical practices; and (3) whether laws and regulations concerning matters of economy and efficiency have been properly implemented.
3. Program results--determine whether (1) the desired results or benefits established by the legislature or other authorizing body are being achieved and (2) whether alternatives that might yield desired results at a lower cost have been considered.

Collectively, we believe the audit function with the above elements--known as expanded-scope auditing--can benefit executive agency management and improve internal controls over operation. Not every individual audit assignment has to include all these aspects, but should be tailored to meet management's needs. However, over time, management needs to have adequate expanded-scope coverage of its programs and activities.

ACDA's internal audit coverage is inadequate

ACDA has no internal audit staff and its very limited internal audit coverage falls short of meeting the requirements of A-73. A small imprest fund and some research contracts have been audited for ACDA by other agencies. While the General Services Administration (GSA) occasionally audits aspects of ACDA financial transactions, these audits have a very limited scope and do not cover all of ACDA's internal controls.

With regard to A-73 and the internal audit function, ACDA reviewed the situation and after consultation with OMB staff, explained that:

****In general, ACDA is covered by this circular [A-73]. However, the real question is to what extent OMB Circular A-73 is applicable to agencies with audit staffs. ACDA does not have an audit staff and, therefore, the provisions of Circular A-73 do not apply directly****. Previous managements of ACDA have historically decided that the Agency did not need an internal audit staff. We understand that this conclusion was made because the Agency is small and that the checks***[by] GSA***and audits by GAO and the independent audit agencies were adequate for the type of operations ACDA conducts and the size of the Agency's appropriation."

We disagree with this position for the following reasons:

- A-73 applies to all executive branch departments and agencies, including ACDA. If the existence of an audit staff was the key to A-73 applicability, any executive branch agency could make A-73 requirements inoperative by eliminating its internal audit function. Clearly, OMB did not intend this when it issued A-73 and would not tolerate such actions.
- ACDA officials advised us in January 1979 that ACDA planned to use an internal auditor, thus, recognizing the need to establish an internal audit function.
- ACDA can establish expanded-scope audit coverage without hiring staff. Adequate coverage can be acquired in a variety of ways, discussed later in this report.

Apart from technical compliance requirements, there are logical management benefits from adequate internal audit coverage. ACDA officials say that ACDA has operated for more than 20 years with minimum internal audit coverage and, believe there will be increased costs and limited benefits from expanding such coverage. We recognize that to establish adequate expanded-scope internal audit coverage would increase ACDA's costs, however, our current and past work in ACDA provides numerous illustrations of the potential benefits to be derived from adequate internal audit coverage. For example, the following situations are typical of those that could be addressed under expanded-scope audits of Agency programs and activities; however, none would be addressed under the type and level of internal audit coverage ACDA now obtains.

Seriously out-of-date policies and procedures in the official ACDA Manual and Instructions

Although ACDA has issued 26 Instructions and 61 Notices on administrative procedures since October 1981, most documentation governing the structure and operation of ACDA is outdated. The most recent update to the Manual was in 1978 and more than 60 percent of the Instructions we reviewed were in need of revision for more than 4 years. ACDA officials explained that this situation did not affect ACDA's ability to control its operations and resources. We were told most officials are aware of each others' responsibilities. However, functional statements of the responsibilities of organizational units have not been formally updated in the ACDA Manual even though a major reorganization occurred in October 1981. This matter relates to the instances described below, of inconsistencies between assigned and performed duties, of not preparing verification reports to the Congress, and of noncompliance with administrative requirements. ACDA officials told us that the Manual is going to be updated.

Differences in the duties assigned versus those performed

ACDA's statement of responsibility for arms control verification activities assigns them to the Bureau of Verification and Intelligence (VI). However, other bureaus are performing verification activities instead of VI. Specifically, ACDA's Assistant Director in charge of the Bureau stated that VI was not

--meeting all the responsibilities identified in VI functional statements,

--reviewing all the verification papers which other organizations in ACDA prepare, or

--attending high-level meetings on verification issues.

ACDA has said that steps are being taken to enhance VI's capability as the focal point for ACDA verification work.

ACDA's authorizing legislation needs to be more thoroughly studied

Laws passed by Congress are an important element of internal control since they authorize agencies to carry out the functions of government, and can establish the extent to which such functions are to be performed. A standard starting point for defining and assigning responsibilities for performing these functions within agencies is a thorough legislative study to determine what the law requires.

Although ACDA officials believe the Agency accomplishes all its required mandates, ACDA's General Counsel told us that comprehensive legislative analyses have not been done. The General Counsel could provide us with only two limited-scope analyses dealing with (1) ACDA's authority to participate in interagency groups and (2) the congressionally mandated title of the ACDA Assistant Directors. After our fieldwork was completed, we became aware of an additional analysis done in 1977 of ACDA's obligations under the then-new Section 37 of the Arms Control and Disarmament Act. This analysis was directed at the Director's responsibility for congressional reporting on the verifiability of arms control proposals and agreements.

Without thorough legislative analyses we do not believe ACDA has a defensible basis for concluding that it is meeting all of its required mandates. In our opinion, legislative analyses are important criteria for measuring agency resource utilization and performance. In commenting on a draft of this report, ACDA agreed to determine the need for additional legislative analyses.

Section 37 reporting to the Congress and noncompliance with administrative requirements

ACDA has not provided the Congress reports on the verifiability of significant arms control proposals, under Section 37(a)(1) of the Arms Control and Disarmament Act (22 U.S.C. §2577(a)(1)). Reports for significant proposals have not been provided for Mutual and Balanced Force Reductions, and Intermediate Nuclear Forces. However, on two occasions a report has been submitted upon request, to a committee of Congress, in keeping with Section 37 (a)(1): last year, a report was made to the Senate Foreign Relations Committee on the Strategic Arms Reduction Talks and in 1979 on SALT II negotiations.

In recent years ACDA has not provided OMB with the arms control research reports required by Executive Order 11044, nor had it implemented various OMB directives when our work began, such as:

- A-71 (Transmittal Memorandum Number 1) on "Security of Federal Automated Information Systems."
- A-73 on "Audit of Federal Operations and Programs."
- A-123 on "Internal Control Systems."

Past GAO work

Our past work yields further examples of the types of issues that can be developed under expanded-scope audits and brought to ACDA's management attention for corrective action. In our March 17, 1980, report, entitled "Coordination of Federal Arms Control Research Programs To Be Improved" (ID-80-6), we discussed inadequacies in Government-wide arms control research coordination in the sense of

- ACDA's failure to implement required research coordination procedures and
- the uncertainties in the scope of research to be coordinated.

The report also pointed out that ACDA needed to improve management of its external research program.

More recently, in our January 25, 1983, report on "RECOVER: A Potentially Useful Technology for Nuclear Safeguards But Greater International Commitment Is Needed" (GAO/ID-83-9), we pointed out that

- the REMote Continual VERification system, designed by ACDA and costing over \$4.0 million through 1982, had an uncertain future;
- ACDA lacked in-house capability to develop the system; and
- the project was behind schedule by as much as 2 to 3 years.

Additional examples of the value of expanded-scope internal audit coverage are provided in our companion reports on ACDA's computer-based support activities and its arms control research program. (See GAO/NSIAD-83-66 and 67.)

VARIOUS APPROACHES TO OBTAIN
INTERNAL AUDIT COVERAGE

ACDA must decide which type of arrangement would best ensure effective internal audit coverage in compliance with legal and administrative requirements. The usual way Federal agencies, even small ones like ACDA, provide coverage is to establish an organization and hire a staff. If ACDA does not elect to create a small, in-house audit staff, other approaches include:

--Contracting with an Inspector General or GSA.

ACDA could contract with an inspector general organization in another Federal agency or with GSA, provided that the auditing personnel have the security clearances and access to the documents needed to conduct the audit.

--Contracting with a non-Federal organization.

ACDA could contract with a non-Federal organization, such as a private consulting firm, to perform its internal audit function. This approach, however, could present difficulties when the expanded-scope audit activity requires access to classified information. Executive Order 12356 limits ACDA's ability to authorize access to classified information to anyone outside the executive branch except under conditions that ensure that the information will be given protection equivalent to that afforded within the executive agency.

The use of any alternative to an in-house organization does not eliminate or reduce ACDA's responsibility under A-73, A-123, and other internal control directives. For example, ACDA would still be responsible for (1) seeing that the audit group, whether in-house or under contract, met applicable audit standards, (2) developing the annual audit plan required by A-73, and (3) establishing and implementing other policies and procedures related to internal control, including internal audit.

In May 1983, ACDA officials met with GSA officials and others about obtaining expanded-scope audit coverage for ACDA activities, however, a final decision had not been made by the time we completed our audit work.

CONCLUSIONS

ACDA recognizes the need to comply with internal control requirements and has taken some actions. Much more remains to be done, however, regarding adequate internal audit coverage. We recognize that internal audit coverage will increase costs to the Agency but such coverage is an important internal control element. We have long advocated the benefits of effective internal audit to good management and the problems discussed in this report clearly illustrate situations which internal audit coverage--either in-house or under contract--could bring to management's attention.

RECOMMENDATIONS

We recommend that the Director, ACDA:

- Establish an internal control system which is in accordance with legislative requirements and administrative directives.
- Establish internal audit coverage in accordance with the requirements of 31 U.S.C. 3512 and of OMB A-73, "Audit of Federal Operations and Programs."
- Correct the matters discussed in this report related to (1) updating the ACDA Manual and Instructions, (2) resolving the differences in assigned versus performed verification duties, (3) assessing all of ACDA's legislative authorities, and (4) preparing reports specified by Section 37(a)(1) of the Arms Control and Disarmament Act.

AGENCY COMMENTS AND OUR EVALUATION

We sent a draft of this report to ACDA and OMB for official comment. The official responsible for this area within OMB told us that ACDA would respond for both agencies. In general, ACDA said it is acting on most of our recommendations, indicating, for example, that efforts to improve internal controls had begun; GSA would provide expanded-scope internal audit coverage; ACDA's General Counsel would review existing legislative analyses and recommend to the Director additional ones that may be appropriate; and VI's resources will be increased to enable it to perform assigned verification duties. ACDA believes that it has fulfilled its responsibilities under Section 37 (a)(1) of the Arms Control and Disarmament Act. We comment on this as well as other parts of ACDA's response in our notes to appendix II.

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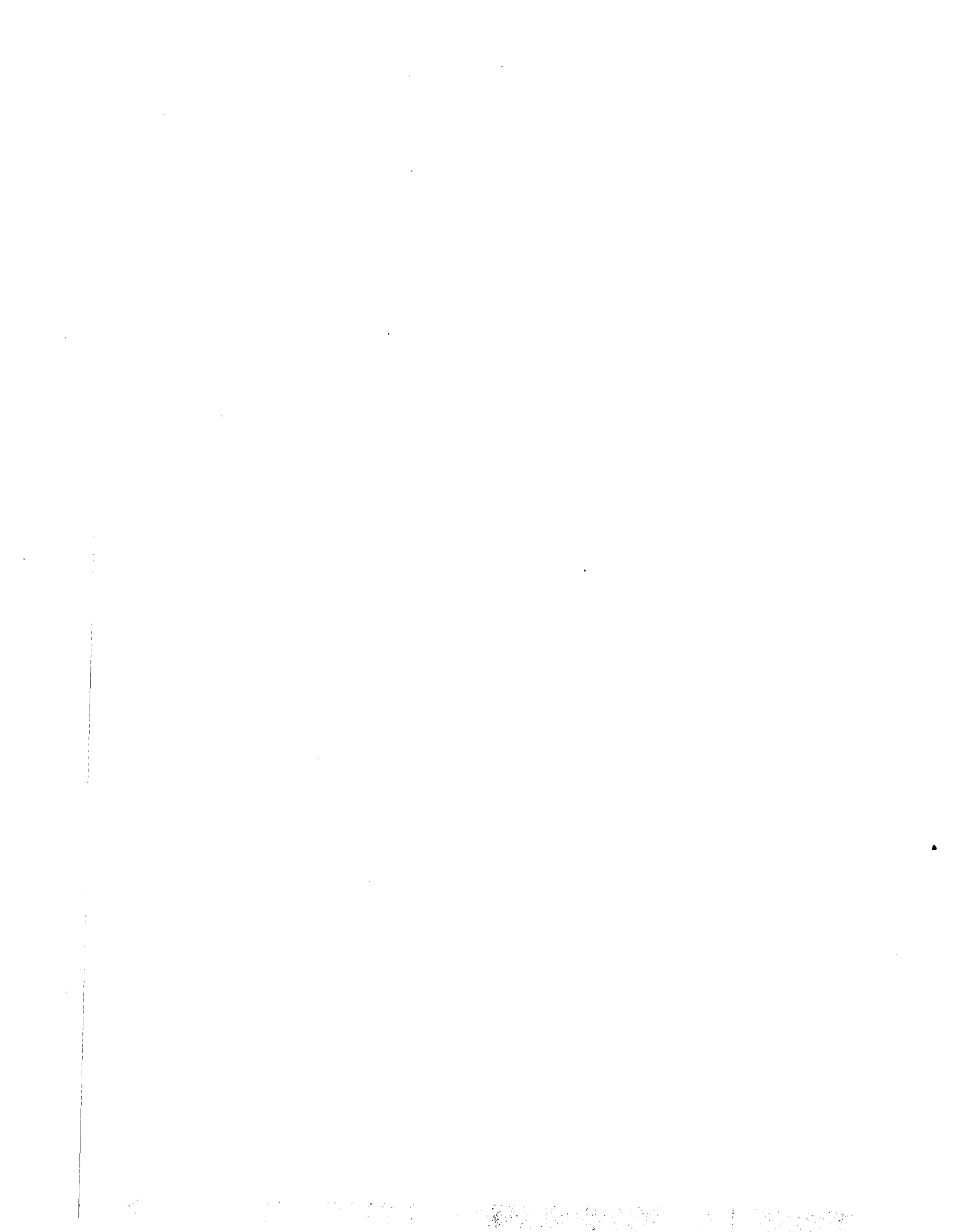
As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the requesters; Director, Office of Management and Budget; Administrator of General Services; the cognizant congressional appropriation and authorization committees; and others upon request.

Sincerely yours,



Frank C. Conahan
Director



OBJECTIVE, SCOPE AND METHODOLOGY

Our objective was to determine whether ACDA was adequately complying with legislative and administrative directives on internal controls, including internal audit. Our work, which was performed between April and June 1983, included:

- Interviewing ACDA, GSA and OMB officials.
- Examining ACDA's documents and manuals related to internal controls.
- Reviewing GSA's financial and audit activities performed for ACDA.
- Analyzing legislation and OMB directives related to internal controls and internal audit.

Our work was done in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

UNITED STATES ARMS CONTROL AND DISARMAMENT AGENCY
WASHINGTONOFFICE OF
THE DIRECTOR

September 1, 1983

The Honorable Charles A. Bowsher
Comptroller General
of the United States
Washington, D. C. 20548

Attention: Mr. Frank C. Conahan

Dear Mr. Bowsher:

The Arms Control and Disarmament Agency (ACDA) has reviewed the General Accounting Office's draft report on "Need for Internal Control Improvements, Including Adequate Internal Audit Coverage (GAO/NSIAD-83-)", as forwarded with your August 17 letter.

While parts of the report will be useful as we continue to review ACDA's operating practices and procedures, certain sections do not present an accurate or complete assessment. Our detailed comments on those areas requiring clarification or correction are attached.

Sincerely, ,



Kenneth L. Adelman

Attachment

Arms Control and Disarmament AgencyComments on Draft Report "Need for Internal Control
Improvements, Including Adequate Internal Coverage"
(GAO/NSIAD-83-)OMB Circular A-123 Implementation

ACDA has been planning its internal control activities to meet the requirements of the Federal Managers' Financial Integrity Act since early 1983 so that the Agency's Director will be able to provide the required report to the President and the Congress by the December 31, 1983 deadline. Following passage of the Act on September 8, 1982, interest in expanding internal control systems has increased throughout the Federal Government. Detailed guidelines for establishing an internal control evaluation, improvement and reporting process were forwarded by OMB in January 1983 and ACDA began planning its implementation efforts on a schedule similar to other small agencies.

ACDA has taken several actions to ensure that the Agency will be in a position to meet the reporting deadline set by the Act, including: (1) several meetings with various responsible OMB personnel concerning ACDA's program for assuring compliance with the Circular and the Act; (2) preparation of a vulnerability assessment and internal control plan; (3) meetings with representatives of the GSA External Service Branch and the Inspector General Office concerning GSA plans for supporting the A-123 effort, as a part of the administrative support agreement ACDA has with GSA; and (4) conclusion of a contract with a major independent accounting firm to supplement the capabilities of the Agency's small administrative staff for the conduct of vulnerability assessment and internal control revisions and further implementation of Circular A-123.

The above actions are at least equal to and on a time schedule that meets or exceeds those of other small agencies. These actions demonstrate the Agency management's commitment to improved internal controls through compliance with OMB Circular A-123. (SEE GAO NOTE A.)

Internal Audit Coverage

The report incorrectly states that ACDA management believes that increased audit coverage will produce only "increased costs and no benefits." The Agency's management has consistently stated that any suggested improvements in the Agency's audit practice would receive serious consideration. (SEE GAO NOTE B.)

Consistent with this approach, ACDA management has: (1) reviewed the provisions of OMB Circular A-73 and the appropriateness of previous ACDA managements' decisions on internal audit in light of current conditions; (2) reviewed with the Executive Secretary of the President's Council on Integrity and Efficiency the Agency's compliance with any directives from the President or the Council; and (3) reviewed with GSA the various checks within the GSA system related to ACDA's expenditures and the possibility of expanding GSA audit coverage. As a result of these and other ACDA initiatives, ACDA formally informed GSA that the Agency will require expanded audit coverage during FY-84. Starting this coverage sooner in FY-83 was not possible because GSA audit capabilities have been fully committed.

ACDA management believes that the establishment of an internal audit group staffed by full time permanent agency employees is only one of several ways to obtain expanded audit coverage. For an agency of ACDA's size (169 full time permanent personnel estimated for FY-84), this alternative appears less cost effective than other contract approaches. (SEE GAO NOTE C.)

Out-of-Date Policies

The review of manuals, procedures and instructions for an Agency the size of ACDA is a continuing process. Following a long-established practice, ACDA's Instructions and Notices and other properly executed documents supersede sections of the ACDA Manual until these changes have been incorporated in the Manual. This is a procedure that has been followed since 1971.

During the period October 1981 to August 1983 ACDA issued, revised or reviewed 26 Instructions and issued 61 Notices on Administrative procedures. Notice of reorganization including changes of responsibilities and organizational structure were provided in writing by ACDA's Director to all ACDA staff members. These actions were taken to keep ACDA's personnel informed on organizational responsibilities, procedures and other aspects of the Agency's operations.

Differences in the duties assigned versus those performed.

Verification issues cut across a number of ACDA's line functions. The Verification and Intelligence Bureau was established in late 1981 to provide a focal point for verification activities. The intent of this action was not to restrict verification decision making to a single bureau but rather to provide an organizational point of emphasis for these matters.

The Verificiation and Intelligence Bureau is a new organization and until March 10, 1983 was without a confirmed Assistant Director because of inaction by the Congress on the President's nomination for this position. The report properly mentions ACDA's plans to strengthen the capabilities of the VI Bureau and the President has approved an increase in ACDA's financial and personnel resources in part for this purpose. (SEE GAO NOTE D.)

No comprehensive assessments done on what ACDA's authorizing legislation requires.

ACDA maintains close and frequent contact with the Congressional Committees having principal jurisdiction over arms control. The Agency has found that through relevant legislation and the accompanying legislative histories the Congress clearly makes known its intent to ACDA on arms control matters. Oversight by ACDA's authorizing committees is detailed and a close working relationship exists between the Agency and interested Congressional staffs to ensure that the will of the Congress expressed through legislation is carried out.

ACDA's Director plans to have the Agency's General Counsel review past legislative analyses and make recommendations on the need for any additional legislative analyses that may be appropriate.

Non-compliance with legislative and administrative requirements.

The draft report asserts that ACDA has not fulfilled its responsibilities under Section 37(a)(1) of the Arms Control and Disarmament Act to submit reports to Congress on the verifiability of significant arms control proposals. To support this assertion, the draft report states that ACDA has not submitted reports for the Strategic Arms Reduction Talks, the Intermediate-range Nuclear Forces Talks, and other negotiations.

This assertion fails to take adequate account of the meaning of Section 37 as is made clear by its legislative history. The Conference Committee report (HR Rpt No. 95-563) noted that Section 37(a)(1) was not intended to interfere with the President's ability to conduct arms control negotiations. President Carter noted this statement when he signed the bill and reiterated that the control of negotiations with other states is the responsibility of the President.

It is clear from the above that ACDA is in compliance with Section 37(a)(1) concerning negotiations between the U.S. and other States. ACDA has submitted such verification reports when directed by the President. Also, it should be noted that the legislation calls for reports on a "timely" basis and upon request of appropriate Committees. All such Committee requests have been met. (SEE GAO NOTE E.)

Coordination of Federal Arms Control Research Programs

ACDA has in the past carried out its research coordinating responsibilities through its participation in the interagency process to avoid duplication of research among agencies of the Executive Branch. ACDA's Director plans to institute a review to determine the amount and type of arms control research coordination that is appropriate to present circumstances. If necessary, new procedures will be instituted or legislative relief sought to eliminate this requirement. With respect to the reporting procedures noted in the draft report, it is the Agency's understanding that the Executive Branch ceased reports to OMB on the coordination of Government-wide arms control research in consultation with the Committees of Congress having primary jurisdiction over the Agency and no objection was interposed.

RECOVER

The draft report uses as an example of inadequate internal controls certain conclusions contained in the report GAO/ID-83-9 on ACDA's RECOVER program. After an exhaustive investigation involving GAO interaction with all involved parties in the U.S. and abroad, GAO did not attribute its findings to inadequate internal controls. GAO stated in the title of GAO/ID-83-9 its principal conclusions that ACDA had developed in RECOVER a "potentially useful technology for nuclear safeguards, but (that) greater international commitment is needed." While GAO has identified certain "management problems" in the RECOVER program, ACDA understands that these were related to factors other than internal control and were addressed in the Director's comments on GAO/ID-83-9. (SEE GAO NOTE F.)

GAO NOTES:

- A. ACDA's statement overlooks the focus of the report's discussion. OMB's Circular A-123 was dated October 1981 and ACDA had not begun to implement its provisions when our work began earlier this year.
- B. We have changed the report to more properly characterize the discussions we had with ACDA officials throughout the review.
- C. Our report discusses ACDA's options for providing adequate internal audit coverage. Contracting for GSA audit services is among those options but, although GSA may perform the audits, ACDA management is still responsible for assuring that audit standards are met and that adequate overall coverage is obtained. GSA officials told us that they may not be able to provide the requested audit services. If this proves to be the case, then ACDA will have to select another approach.
- D. ACDA describes VI as a "new organization" which was without a confirmed head until earlier this year. VI was created in October 1981 and the duties assigned to it did not all require dealing with other agencies. In such cases, we do not see the relevance of VI not having a confirmed head. A confirmed head is also not required in order to deal with others; although for reasons of protocol and the perception of VI by others, a confirmed head would have been desirable.
- E. Section 37(a)(1) of the Arms Control and Disarmament Act, as amended, 22 U.S.C. §2577(a)(1), provides that the Director of ACDA furnish verification reports on arms control proposals to the Congress on a timely basis, or upon a request by an appropriate committee of Congress. ACDA's comment implies that the Director is not required to provide verification reports on arms control proposals because it interferes with the President's responsibility for arms control negotiations. Nevertheless, ACDA states that the Director has provided reports when directed by the President and that all congressional committee requests for reports have been met.

We requested ACDA to furnish us with information about verification reports provided either to the Congress, or, upon request, to its committees

since the statute was enacted in 1977. Based on the information we obtained from ACDA, it has only issued two reports under Section 37(a)(1), both of which were at the request of the Senate Foreign Relations Committee. These reports were:

(1) a February 23, 1978 report on Salt II and
(2) a November 18, 1982 report on START. ACDA also furnished us with information that it had provided the House Permanent Select Committee on Intelligence with a verification report under Section 37 concerning the U.S.-USSR Treaty on Limitation of Strategic Offensive Arms and its Protocol. The report was furnished on July 18, 1979, which was one month after the United States had signed the treaty. Although the treaty needed the advice and consent of the Senate to become effective under U.S. law, it was no longer a proposal, as negotiations had been concluded.

ACDA has provided no verification reports to the Congress pursuant to Section 37(a)(1). (It has provided Section 37(a)(1) reports on two occasions when requested by a committee of Congress.) We have no evidence that the Director of ACDA provided such reports to the Congress through briefings, meetings or other written or oral communications. Thus, although several major arms control negotiations have taken place since Section 37 was enacted in 1977, no verification reports have been furnished to the Congress. For example, no reports have been furnished with respect to negotiations concerning Mutual and Balanced Force Reduction and Intermediate Range Nuclear Forces.

Thus, while ACDA has complied with congressional committee requests under Section 37(a)(1), it has not provided verification reports to Congress. The congressional conference committee report recognized that the Section 37(a)(1) requirement is not "intended to interfere with the President's ability to conduct arms control negotiations" but rather "is intended to emphasize the responsibility of ACDA***to keep the Congress informed with respect

to the verifiability of significant arms control proposals." ("Joint explanatory Statement of the Committee on Conference for H.R. 6179," 95th Congress, House Conf. Rep. No. 95-563, p.5) In his August 18, 1977 statement in signing H.R. 6179 which became Section 37, President Carter referred to this provision of the conference committee report and added "***I share Congress' belief in the importance of consultation and close cooperation on these matters and I am confident we will continue to work together in a manner that is consistent with our respective constitutional responsibilities in the conduct of the Nation's foreign policy.**"."

We believe ACDA should find some means to keep the Congress informed about verification issues in arms control proposals.

- F. The point we were making was that RECOVER had management problems--it was costly and had an uncertain future; ACDA lacked the in-house capability to develop it; and it was two to three years behind schedule. These are the kinds of problems internal audits would highlight for top management attention. If there was an internal control failure connected to RECOVER, it was in the lack of adequate internal audit coverage for potentially identifying its management problems.



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