

Auditors Don't Inspect and Inspectors Don't Audit

Comparison of the Naval Audit Service and Naval Inspector General Functions

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With an annual budget of over \$120 billion and an active workforce of more than 700,000 military and civilian personnel spread around the world, the Department of the Navy needs a system of oversight that addresses the complexity and magnitude of the organization. This oversight is provided through the work of the Naval Audit Service and the Office of the Naval Inspector General.

The Naval Audit Service and the Office of the Naval Inspector General both pursue similar organizational goals: to ensure that the Department of the Navy's people and resources have the best stewardship.

Though their missions differ, the two organizations share similar goals. Both work to assure that Department of the Navy resources are used efficiently and effectively and that DoN actions comply with laws and regulations. Both organizations support the DoN's mission and the people who carry it out. Both are oversight organizations, but each has unique roles and provides different—but complementary—services to Department leadership. However, because their goals are similar, the differences between management approaches, methodologies, and outputs of the two organizations sometimes become blurred, even in the eyes of senior DoN officials.

What's the Same and What's Different

So what *are* the similarities and differences? The unique role of each organization is established by public law. Title 10 U.S. Code, section 5014, requires that the Office of the



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Secretary of the Navy have sole responsibility for auditing within its own office, the Office of the Chief of Naval Operations, and the Headquarters, Marine Corps. The Naval Audit Service is entrusted by the secretary of the Navy to provide independent, professional internal audit services that assist Navy leadership in improving efficiency, accountability, and program effectiveness. Title 10 specifies that the head of the office established by the secretary to conduct the auditing function (the auditor general of the Navy) have at least five years of professional experience in accounting or auditing. The auditor general is considered to be a career-reserved position as defined in section 3132 (a)(8) of Title 5, U.S. Code, and the law prohibits members of the armed forces on active duty from holding any supervisory positions in auditing.

The Naval Audit Service accomplishes its mission by performing internal audits of Department of the Navy organizations, programs, activities, systems, functions, and funds. These audits evaluate whether:

- Navy information is reliable
- Resources have been safeguarded
- Funds have been expended consistent with laws, regulations, and policies
- Resources have been managed economically and efficiently
- Desired program performance has been achieved.

The Office of the Naval Inspector General is also cited in the same section of Title 10 as a unique function within the Office of the Secretary of the Navy charged with:

- Inquiring and reporting on matters affecting military efficiency or discipline
- Proposing a program of inspections
- Making inspections, investigations, and reports as directed by the secretary of the Navy or the chief of Naval Operations
- Cooperating fully with the inspector general of the Department of Defense.

The Naval Audit Service

The Naval Audit Service is a professional audit organization. By law, the auditor general is a career civil servant who reports directly to the under secretary of the Navy in order to establish and maintain impartiality. The Naval Audit Service's main products are the services represented by its audit and other reports. Its work is held to professional standards equivalent to those required of private-sector auditing firms. Government auditing standards are issued by the comptroller general of the United States in what is commonly referred to as the "Yellow Book." The standards impose a quality discipline on audit products to ensure that results are accurately reported and that audits are conducted in such a manner that their conclusions can be duplicated by an impartial third party following professional accounting standards. The audit culture is driven by the desire to provide DoN leadership with

the most reliable information, including disclosing information or situations of which leadership may not have been aware so that informed decisions can be made.

There are 350 professional staff in the Naval Audit Service, all of whom hold recognized professional qualifications for education and experience, including a bachelor's degree (or higher) and accounting and business training. Many hold one or more external professional certifications and DoD auditor certifications. All auditors must maintain the currency of their skills through required annual continuing professional education.

Audits

An average audit is planned to take approximately nine months with a staff of four or five auditors and consists of an intense examination of processes, policies, and outcomes. Audit reports document the services provided by the Naval Audit Service. Each report summarizes a situation that requires leadership's attention, explains the root cause(s) of the situation, and recommends potential solutions. The report also discusses the criteria against which the situation was examined. The service provided by the auditors is the sum of the professional rigor associated with the design of the audit approach; the collection, organization, and analysis of data; and the impartial reporting of significant information and formulation of recommendations to the level of management that is best able to take effective action.

Auditors' primary approaches to obtain supporting evidence for audit results, conclusions, and recommended solutions are to test documentary files and records, analyze management and program data, and make direct observations. The report is supported by work papers that describe the approach, contain the information and its sources, document the data collected, and describe the analyses performed in such a manner that a third party could verify the information and would likely arrive at the same conclusions based on the evidence.

Based on their work, auditors may certify or attest to the accuracy of data or to the assertions of management. The work and opinion of auditors, within the bounds of their profession and, when appropriate, in court proceedings, carry recognized legal weight.

The Office of the Naval Inspector General

Title 10, USC, establishes the Naval inspector general as "the senior investigative official in the Department of the Navy (DON) and the principal advisor to the Secretary, Chief of Naval Operations (CNO), and Commandant of the Marine Corps (CMC) on all matters concerning inspections and audit followup with particular emphasis on those matters relating to DON integrity, ethics, efficiency, discipline, or readiness, afloat or ashore." This flag officer is assigned by the secretary of the Navy to inquire

and report on matters affecting military efficiency or discipline, propose programs of inspection, and conduct inspections and investigations as directed by the secretary or the chief of Naval Operations.

The functions of the Office of the Naval Inspector General include investigations that result from hundreds of hotline complaints and congressional inquiries. Inspections are a combination of area visits that cut horizontally across all commands in a geographic area, command assessments on Echelon II commands, and special focus studies that delve into specific areas of interest/concern to Department leadership. Oversight responsibilities include review of Judge Advocate General Manual investigations as well as intelligence and special program oversight reviews. Additionally, the Naval Inspector General Office is tasked with conducting audit evaluation and follow-up, and other support efforts. The Office of the Naval Inspector General is staffed by 29 military and 49 civilian employees.

The Naval Inspector General Inspections Division is the lead directorate for the assessment and inspections processes, and is composed of fleet-experienced officers from each warfare area—aviation, submarines, surface warfare, aviation maintenance, information technology, and manpower—bringing an operational perspective to the assessment process that requires minimal time to ramp up on issues before an inspection.

Inspections

Naval Inspector General Command Inspections are conducted on 31 Echelon II commands (e.g., commander, U.S. Pacific Fleet and commander, Naval Air Systems Command) on a periodic cycle with a goal of inspecting all Echelon II commands every four years.

Command inspections begin with a command-generated self-assessment. The self-assessment is a compilation of the command's mission (all processes), how process effectiveness is measured (metrics), and a discussion of specific risks/material weaknesses. The Naval Inspector General is currently implementing an electronic self-assessment tool for commands to tailor to their mission/processes. Once the self-assessment is reviewed, the Naval Inspector General team will conduct an extensive on-site visit (as necessary) to further assess the command's processes/risks.

Area visits generally cover a specific geographical area and focus on evaluating specific functions within the Department of the Navy, cutting across claimancy, fleet, and command lines to identify systemic DoN-wide issues and evaluate selected risks to the Department. These assessments look at a variety of areas including mission readiness; anti-terrorism/force protection; quality of life/service; morale, welfare, and recreation; facilities; housing;

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environmental, safety/occupational health, medical/dental; safety; Commissary/Navy Exchange; and command climate. A typical visit will entail a wide-ranging command climate survey, focus groups, and leadership interviews. Ultimately, the team will assess the major issues and risks present across the area.

Special focus studies are done at the request of the chief of Naval Operations/vice chief of Naval Operations on an emergent basis. They are an in-depth review of a particular issue or concern. The Office of the Naval Inspector General will typically conduct two or three special studies per year. Recent studies include the Navy-wide drug abuse and prevention, and sexual assault studies. These studies are typically conducted by three- to five-person teams and often take from three to five months to complete.

Naval Inspector General methodology for command inspections and area visits is to gather information based on personal interviews, surveys, focus groups, and command self-assessments; and to assess the information based on staff knowledge of the Navy and personal experience. By this method, the Inspector General develops issues for reporting and correction. It is important to recognize that there is no set "standard" assessment or area visit. The inspections and area visits are broad and gather information in the context of the command or area. The process relies on a comparison of existing policy/data and testimonial evidence (although not exclusively so) and often upon the integrity and forthrightness of Naval officials and personnel. It is an expedient and relatively fast method for identifying systemic Navy problems and invariably identifies issues that turn out to be significant.

The Inspections Division at the Office of the Naval Inspector General has a staff of 10 Naval officers with broad

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fleet experience. Their knowledge and military experience is at the core of an inspection or area visit. Core staff are augmented with additional personnel from other divisions or commands, so an inspection or assessment team may eventually involve 20 to 30 people who may spend as long as two weeks on-site.

Special studies are different in that detailed fact gathering and analysis may be required to determine the scope and root causes associated with issues. Naval Inspector General special studies normally focus on examining specific issues and providing senior Department of the Navy leadership with findings and recommendations from an operational perspective. The investigative nature of Naval Inspector General reports calls for a wide latitude in the method of conduct for each study.

In conclusion, the Office of the Naval Inspector General is the “conscience of the Navy,” making a difference and adding value at all levels through assistance, advice, and advocacy.

Different Organizations, Common Goals

Auditors interview, but they use documentary data as the primary source of information on narrowly focused reportable issues. Audits verify and test documents, files, and records for accuracy. Auditors analyze data and make direct observations. Their reports are backed up by independently verifiable documentary evidence and analyses. Audit reports contain enough detail to identify and address root causes and to allow management to make informed decisions.

Inspectors also interview and look at data, but the primary source of their reports is human input on an all-inclusive range of issues. Their reports are backed up by their military experience and the integrity of their people. While inspectors can provide a quick look with broad coverage, they don’t have the resources to go into great depth. Inspectors raise issues and concerns from all levels up the chain of command, serving as an early-warning system that allows the Department to spot trends and address issues and problems early.

The Naval Audit Service and the Office of the Naval Inspector General are very dissimilar organizations and use different methodologies—but both pursue similar organizational goals: to ensure that the Department of the Navy’s people and resources have the best stewardship.

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