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DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

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OFFICE OF THE SECRETARY

MAY 21 1969

MEMORANDUM FOR DR. McLUCAS

SUBJECT: Internal Management Audit of MOL

Purpose. The purpose of this memorandum is to advise you of our intended course of action with regard to internal management audits of MOL by the Air Force Auditor General.

Background. Because of the reconnaissance aspects of MOL and the complicated security interfaces in the program, both in hardware and documentation, coupled with the very wide exposure MOL has in the white world (e.g., large dollar value, openly discussed before Congress, manned aspects of the program, etc.) we have endeavored to work out solutions with such activities as the Air Force Inspector General, General Accounting Office, Defense Contract Audit Agency, etc. which are both consistent with past practices of the NRO for the black programs and also meet the unique needs of MOL. For example, we have excluded MOL from routine Air Force Inspector General review, but we employ briefed and unbriefed representatives of the Inspector General in our flight safety program. The Air Force Inspector General and a few members of his staff are briefed DORIAN in order that they can support the program in a controlled way.

Similarly, there are two individuals briefed DORIAN in the General Accounting Office: the Director, Defense Division; and the Associate Director, R&D, Defense Division. Through these two contacts, MOL information is provided the GAO for response to queries from outside sources. Not only do we participate in framing the GAO responses, but we can assure the GAO that the responses are as accurate and complete as security will permit. These GAO contacts have full access to all MOL information in order to assure themselves that all MOL matters of interest to the GAO are properly conducted.

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For example, the GAO contacts have been placed in direct communication with the cleared group of DCAA Auditors who audit the MOL black contracts.

The Air Force Auditor General first expressed interest in the MOL Program in a letter dated 3 January 1968 (Tab 1). As you know, the mission of the Air Force Auditor General is to conduct internal management audits of Air Force programs in the areas of financial management, procurement practices, reports management, property administration, industrial facilities management, etc. In the 3 January 1968 letter a representative of the Auditor General expressed the view that it would be appropriate to include MOL in their audit coverage. The Auditor General recognized the Special Access requirements of MOL and agreed that Auditor General involvement would take place on a discretionary and selective basis consistent with the MOL special management authority.

In response to the Auditor General's proposal for internal management audit of MOL, and recognizing possible benefits of these audits in non-sensitive areas, the MOL Program Office executed a Memorandum of Understanding with the USAF Auditor General Acquisition Division on 23 April 1968 (Tab 2).

The purpose of this Memorandum of Understanding was to permit the USAF Auditor General to audit the management of the non-sensitive, non-payload related activities of MOL (e.g., Gemini B, T-IIIM, etc.) in a controlled way. Two audits were successfully completed under the terms of this memorandum: the MOL T-IIIM liquid rocket motors contract with Aerojet General, May 1968; and the MOL Aerospace Ground Equipment (AGE) being purchased from McDonnell Douglas, Huntington Beach, July 1968.

In September 1968, the Auditor General began a comprehensive audit of the T-IIIM as part of the total T-III program audit. After four months this effort was at a complete impasse. In order to do a complete and thorough audit the auditors stated a requirement for information on specific Titan IIIM and IIID background details, funding, management decisions,

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and other data which were only available in the BYEMAN system. At this point, it became clear that:

a. For the most part, satisfactory management audits of major MOL segments could not be done without DORIAN clearance.

b. Only about two reasonable alternative courses of action were open:

(1) Exclude the Auditor General from MOL.

(2) Brief a limited number of auditors and proceed with the audits in a BYEMAN environment.

Discussion. General Crow and I discussed the situation at some length. We agreed that because of the size of the MOL Program, the money involved, and the black-white interfaces, it probably was in the best interest of the Air Force and MOL to take advantage of the benefits of the internal management audit activity. We further agreed that this could best be done by briefing a few of the Auditor General's people (four) and developing a plan and procedures so that audits could be conducted with access to all pertinent data at all levels of classification. The audit reports would normally be classified in the BYEMAN system. Should versions of the reports be required at a lower classification for some special purpose, these would be jointly prepared in sanitized form by the Auditor General and the MOL Program Office. This was not considered a hardship since all those in responsible management positions in OSD and the AF who may have use for such reports already have DORIAN clearances.

Present Status. The Associate Auditor General, Mr. Orion Y. Row, has been cleared and briefed DORIAN. Three other Air Force Auditor General people are in process for clearances. A plan and procedures for the conduct of future audits is in preparation and the plan will be provided to you for review

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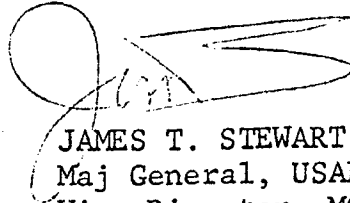
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prior to implementation. No action on your part is required
at this time.



JAMES T. STEWART
Maj General, USAF
Vice Director, MOL Program

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a/s

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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.



REPLY TO: AFAUD-S
ATTN OF: Andrews AFB, Wash DC 20331


SUBJECT: Internal Audit Review of MOL Program

3 JAN 1968

TO: SAFSL

1. As you are aware, internal Air Force auditors under the jurisdiction of this Division have been in residence at ASD, ESD and SAMSO (SSD and ESD) for several years. In addition, an audit office was established at the CMD in September 1966.
2. Our auditors at these locations are specialists in systems management and contract management auditing and it is their responsibility to provide commanders with independent and constructive appraisals of systems management and contract management activities in accordance with AFRs 21-5 and 175-4.
3. In general, our reviews at Systems Command buying and contract administration activities consist of in-depth functional area reviews on a continuing basis. Examples of reviews of this nature that we have performed in the past are SPO Financial Management, Reprocurement Data, Reports Management System, Spare Parts Pricing, Property Administration Activities, Industrial Facilities Management, and Procurement Planning. A representative number of System Program Offices and/or Air Force Plant Representative Offices are included in each such review.
4. Since the MOL program has been in its formative stages, it has not been included in any of the audits that we have performed up to the present time. However, we believe it is now necessary that this program also be included in our audit coverage.
5. We recognize that because of the Special Access requirement, our audit involvement will be on a discretionary and selective basis consistent with the MOL special management authority as described in SAF Order 100.1, dated 1 September 1966, the Secretary of the Air Force memorandum dated August 25, 1965, subject: "Director of the Manned Orbiting Laboratory (MOL) Program" and as supplemented by subsequent pertinent directives. It is our intention, therefore, to audit only those activities to which we have been granted prior access by the Director or Vice Director, MOL, who will determine the desirability of audit activities on an individual basis when so requested or recommended by the Air Force Auditor.

6. I am available at your convenience to work out the details of a general working agreement on this matter.


GEORGE M. HINCKLEY, Col, USAF
Chief
Systems Command Audit Division

23 April 1968

MEMORANDUM OF UNDERSTANDING *
INTERNAL AUDIT OF MOL PROGRAM

I. PURPOSE:

This paper describes the internal audit arrangements which apply to the Manned Orbiting Laboratory (MOL) Program, Phase II activities.

II. SCOPE:

It pertains specifically to the following activities and contracts:

McDonnell Douglas Company - Huntington Beach, California
Contract F04695-67-C-0029

McDonnell Douglas - St. Louis, Missouri
Contract F04695-67-C-0023

Martin-Marietta Corp - Denver, Colorado
Contract F04695-997

Aerofjet General Corp - Sacramento, California
Contract F04695-941

Whirlpool Corp - St. Joseph, Michigan
Contract F04701-68-C-0079

United Aircraft Corp - Windsor Locks, Connecticut
Contract F04701-68-C-0080

AC Electronics Division - Milwaukee, Wisconsin
Contract F04695-67-C-0054

United Technology Corp - Sunnyvale, California
Definitive Contract to be let

The above contract types are fixed price incentive with the exception of the United Aircraft and Whirlpool contracts which are Firm Fixed Price.

* This memorandum supersedes previous undated memorandum of understanding executed between Col Hinckley and Col Ford.

III. OBJECTIVE:

The overall internal audit scope will include:

An individual review and evaluation of the effectiveness and efficiency with which managerial responsibilities are being discharged.

An individual appraisal of financial, operational and support activities. This appraisal will include not only financial and accounting records, but other management controls, policies and procedures.

IV. PARTICIPATING AGENCIES:

MOL Program Office

MOL Systems Office

Systems Command Audit Division

McDonnell Douglas, and AFPRO, Huntington Beach, California

Aerojet General Corp and AFPRO, Sacramento, California

Martin-Marietta Corp and AFPRO, Denver, Colorado

AC Electronics Division and AFPRO, Milwaukee, Wisconsin

United Technology Corp and AFPRO, Sunnyvale, California

V. POLICY:

All internal management audits will be performed under the auspices and control of the USAF Auditor General (Systems Command Audit Division).

The Systems Command Audit Division (AFAUD-S) will advise the Vice Director, MOL (SAFSL), in writing, of its intention to conduct audits of any of the previously cited activities, together with the scheduled date of the initiation of such audit, and the name and location of the audit team chief. The Vice Director, MOL will acknowledge this advice,

in writing, or recommend and rationalize revisions to proposed schedule. All audit communications will be effected directly between the Systems Command Audit Division and the Vice Director, MOL, or the Chief, MOL Program and Policies Division (SAFSLP).

Audit techniques utilized will conform with sound accounting principles, and will be consistent with Air Force and Auditor General pertinent regulations and instructions.

The overall audit review and evaluation will include the examination of policies, procedures, systems, records and reports relating to programming, budgeting, accounting, procurement, supply and financial records.

VI. AUDIT REPORTING:

All audit reports will be submitted to the MOL Program Office in draft form. The MOL Program Office and the Systems Command Audit Division will jointly determine the distribution and handling of audit reports, except that copies of all reports will be furnished directly by the Auditor General to the Comptroller of the Air Force and to the Assistant Secretary for Financial Management. The provisions of para VII E, DOD Instruction 7600.3 will apply at the discretion of the Assistant Secretary of the Air Force for Financial Management.

Normally prescribed audit report format will be used. However, the Vice Director, MOL, will be furnished a summary report which will advise:

That the audit was accomplished and no significant deficiencies were noted, or

That the audit was accomplished and that significant deficiencies were discovered.

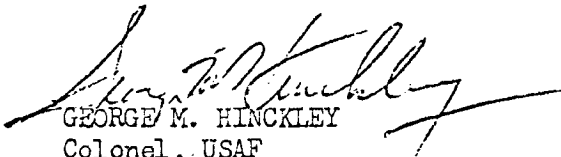
If deficiencies are discovered, the summary report should describe their nature, their effect on management, control, costs, etc., and the remedial and/or corrective action recommended or required.

The summary findings will reference the particular part of the audit report which provides the explicit and complete explanation of the deficiencies.

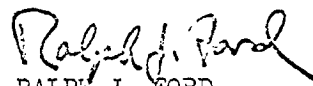
The final audit report will include the MOL Vice Director's comments on the findings and recommendations of the Auditor General and will include the Auditor General (AFAUD-S) comments on the responsiveness of management's comments.

FOR THE AUDITOR GENERAL

FOR THE VICE DIRECTOR, MOL



GEORGE M. HINCKLEY
Colonel, USAF
Chief, Systems Command Audit Division
USAF Auditor General



RALPH J. FORD
Colonel, USAF
Chief, Program & Policies Division
Manned Orbiting Laboratory Program
Office