



Department of Veterans Affairs Office of Inspector General

Peer Review of Department of State and Broadcasting Board of Governors, Office of Inspector General, Office of Audits

**To Report Suspected Wrongdoing in VA Programs and Operations
Call the OIG Hotline – (800) 488-8244**

Contents

	Page
Letter to the Department of State and Broadcasting Board of Governors Inspector General	1
Issues and Recommendations	2
Issue 1. Policies and Procedures Should Be Strengthened	2
Issue 2. Quality Assurance Reviews Should Be Performed.....	4
Issue 3. Peer Review Recommendations Should Be Tracked and Followed Up	5
Issue 4. Documentation for Monitoring Contract Audits Performed by Independent Public Accountants Should Be Improved	6
 Appendixes	
A. Background, Scope, and Methodology	9
B. General Comments	11
C. Department of State and Broadcasting Board of Governors Inspector General Comments	12
D. VA OIG Contact and Staff Acknowledgments.....	14



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington, DC 20420

The Honorable Howard J. Krongard
Inspector General
Department of State and Broadcasting Board of Governors
2201 C Street, N.W.
Suite 8100, SA-3
Washington, DC 20520

Dear Mr. Krongard:

We have reviewed the system of quality control for the Department of State and Broadcasting Board of Governors, Office of Inspector General (OIG), Office of Audits (OA) in effect for the fiscal year (FY) ended September 30, 2006. The system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide reasonable assurance of conforming to *Government Auditing Standards* (GAS). The elements of quality control described in GAS are promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the OIG.

Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the quality control system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with guidelines established by the President's Council on Integrity and Efficiency (PCIE). In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's policies and procedures to the extent we considered appropriate. These tests covered the application of the OIG's policies and procedures on selected audits and attestation engagements. We reviewed 5 (25 percent) of 20 GAS reports issued during the reporting periods for the March and September 2006 semiannual reports (SARs) to Congress. Because our review was based on selected tests, it would not necessarily disclose all quality control system weaknesses or all instances of noncompliance.

Nevertheless, the procedures we performed provide a reasonable basis for our opinion. Because any system of quality control has inherent limitations in effectiveness, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with policies or procedures may deteriorate.

In our opinion, the OIG's quality control system design for the audit function in effect during FY 2006 met the requirements of the quality control standards established by the Comptroller General of the United States for a Federal government audit organization. The system provided the OIG with reasonable assurance of conforming to applicable auditing standards, policies, and procedures. In addition, the OIG generally complied with the system. Therefore, we are issuing an unmodified opinion on the OIG's system of quality control. We noted, however, four issues that warrant your attention though they did not affect our opinion.

Appendix A (pages 9–10) contains the background, scope, and methodology of our review; Appendix B (page 11) contains our general comments; and Appendix C (pages 12–13) contains the Department of State and Broadcasting Board of Governors Inspector General comments.

Issues and Recommendations

Issue 1. Policies and Procedures Should Be Strengthened

OA's policies and procedures were generally adequate for ensuring compliance with GAS. However, policies and procedures on personal impairments, nonaudit services, and monitoring of contract independent public accountants (IPAs) should be strengthened. GAS requires audit organizations to have policies and procedures that establish internal guidance for audits and attestation engagements.¹

OA's Policy, Planning, and Quality Assurance (PPQA) Division is responsible for developing policies and procedures to ensure audits and attestation engagements comply with GAS. OA policies and procedures included the July 2006 U.S. Department of State and Broadcasting Board of Governors, OIG, *Office of Audits Manual* (Manual) and policy letters that provided guidance on subjects not addressed in the Manual. The policies and procedures needed strengthening in the following three areas:

Personal Impairments Require Corrective Actions. GAS requires audit organizations to maintain independence and resolve personal impairments promptly.² The Manual

¹ GAS 3.49 and 3.50.

² GAS 3.07 and 3.09.

requires appropriate corrective actions in the event of personal impairments.³ However, the Manual did not include guidance on resolving personal impairments. Possible corrective actions that OA management could take to resolve impairments include removing auditors from audit assignments, withdrawing from performing audits, or reporting impairments in the audit report scope section. While we did not identify any impairments during our review, guidance for resolving impairments if they occur is needed to strengthen OA policies and procedures.

Possible Effects of Nonaudit Services on Independence Requires Consideration.

GAS requires audit organizations to consider whether providing nonaudit services creates a personal impairment, in fact or appearance, that adversely affects auditor independence. GAS also requires auditors to avoid situations that could lead third parties with knowledge of relevant circumstances to conclude that auditors are unable to maintain independence. GAS provides two overarching principles and seven safeguards that audit organizations should consider to help auditors maintain independence when performing nonaudit services.⁴ The Manual did not incorporate GAS guidance on applying these overarching principles and safeguards when providing nonaudit services. OA did not perform any nonaudit services during FY 2006. However, policies and procedures should be strengthened to ensure independence if nonaudit services are performed.

Additional Guidance for Monitoring Contract IPAs Is Needed. GAS requires audit organizations to use professional judgment in planning and performing audits and attestation engagements.⁵ The Manual included guidance for monitoring contract IPAs conducting financial audits but not nonfinancial audits.⁶ The Manual should require auditors to monitor IPA nonfinancial audit performance by completing steps such as approving audit plans and reviewing audit documentation for compliance with GAS and contract requirements.

The OA Quality Control Officer (QCO) stated that the policies and procedures did not have specific guidance for the three issues discussed above because the Manual's references to GAS provided adequate guidance. However, GAS only provides broad statements of auditor responsibilities regarding competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work. Policies and procedures are necessary to provide OA staff specific guidance and instructions to ensure compliance with GAS.

Correcting these deficiencies will strengthen OA's quality control system and help ensure compliance with GAS requirements for independence, nonaudit services, and monitoring contract IPA nonfinancial audits and attestation engagements.

³ Manual 03-30-04.

⁴ GAS 3.13.

⁵ GAS 3.13.

⁶ Manual 17-20.

Recommendation 1. We recommended that the Inspector General require the Assistant Inspector General for Audits (AIG/A) to ensure the Manual includes guidance on: (a) taking corrective actions in the event of personal impairments, (b) avoiding personal impairments when providing nonaudit services by considering the two overarching principles and seven safeguards provided by GAS, and (c) monitoring contract IPA nonfinancial audits and attestation engagements.

Department of State and Broadcasting Board of Governors Inspector General Comments. The Inspector General reported that OA has revised its Manual to include guidance on: (a) taking corrective actions in the event of personal impairments, (b) avoiding personal impairments when providing nonaudit services by considering the two overarching principles and seven safeguards provided by GAS, and (c) monitoring contract independent public accountants nonfinancial audits and attestation engagements. The AIG/A approved the revisions to the Manual on April 5, 2007.

Department of Veterans Affairs OIG Comments. The Inspector General concurred with the recommendation and the improvement actions are acceptable.

Issue 2. Quality Assurance Reviews Should Be Performed

The PPQA Division did not perform quality assurance reviews of the 20 GAS projects included in the March and September 2006 SARs. GAS requires audit organizations to have an internal quality control system that includes procedures for monitoring the application of policies and procedures on an ongoing basis.⁷ OA policy requires the PPQA Division to perform semiannual quality assurance reviews of at least one GAS audit from each OA division.⁸

According to the PPQA Division Director, during FY 2006 OA did not assign sufficient staff to perform quality assurance reviews. The QCO, who had other responsibilities, was the only person assigned to perform the reviews. Other responsibilities of the QCO included preparing the March 2006 quality control review report covering FY 2005, issuing the July 2006 Manual, and preparing for the VA OIG external peer review beginning October 2006.

Although quality assurance reviews were not performed for the projects we reviewed, we observed that project staff had completed comprehensive quality assurance checklists to test reports and project documentation for compliance with GAS and OA policies and procedures. However, the PPQA Division needed to perform the quality assurance reviews required by the Manual to provide an independent assessment of the effectiveness of the quality assurance checklists.

⁷ GAS 3.50.

⁸ U.S. Department of State and Broadcasting Board of Governors, Office of Inspector General, Office of Audits, Policy Letter, *Quality Assurance Reviews*, November 2005.

Recommendation 2. We recommended that the Inspector General require the AIG/A to ensure the PPQA Division performs semiannual quality assurance reviews of at least one GAS audit from each OA division, as required by OA policy.

Department of State and Broadcasting Board of Governors Inspector General Comments. The Inspector General reported that the AIG/A has been required to ensure the PPQA Division performs semiannual quality assurance reviews of at least one GAS audit from each OA division. The PPQA Division will emphasize quality assurance reviews and begin performing them on a regular basis. The QCO recently completed other responsibilities and will focus on conducting the reviews. The Inspector General also reported that the AIG/A will adjust competing priorities and/or assign additional staff as appropriate to complete these reviews in accordance with internal procedures.

Department of Veterans Affairs OIG Comments. The Inspector General concurred with the recommendation and the improvement actions are acceptable.

Issue 3. Peer Review Recommendations Should Be Tracked and Followed Up

OA did not have a process for tracking and following up on the implementation of external peer review recommendations. GAS requires audit organizations to take remedial, corrective actions based on external peer review results.⁹ OA policy requires the QCO to track and ensure follow-up actions address recommendations made in external peer review reports.¹⁰

The April 26, 2004, Department of Interior OIG report, *Peer Review of the U.S. Department of State Office of Inspector General for the Period April 1, 2002, through March 31, 2003*, made 11 recommendations to correct 10 deficiencies. In September 2006, we asked OA to provide a written description of the corrective actions taken in response to the report. Prior to our request, OA did not have documentation of corrective actions taken. In October 2006, OA reported that 10 of the 11 recommendations had been implemented. Verification of the OA status report confirmed that one recommendation had not been implemented. The unimplemented recommendation was to establish a process to track and follow up on the implementation of external peer review recommendations.

According to the QCO, implementation of external peer review recommendations was not tracked because OA addressed the recommendations by providing training to all staff on the external peer review deficiencies. Although OA implemented some recommendations by providing training, OA implemented other recommendations by taking corrective actions such as revising the Manual and establishing an independent

⁹ GAS 3.52.

¹⁰ Manual 20-40-01.

quality assurance function. However, the QCO did not track and follow up on the implementation of the 11 recommendations.

Implementation of a process to track and follow up on external peer review recommendations will help ensure corrective actions address deficiencies identified during external peer reviews.

Recommendation 3. We recommended that the Inspector General require the AIG/A to ensure OA establishes a formal process for tracking and following up on the implementation of external peer review recommendations.

Department of State and Broadcasting Board of Governors Inspector General Comments. The Inspector General reported that OA has established a database for tracking and following up on the implementation of external peer review and internal quality assurance review recommendations. The PPQA Division is responsible for tracking and ensuring that follow-up actions address recommendations of external peer review reports and for maintaining the database. The AIG/A approved these corrective actions on April 5, 2007.

Department of Veterans Affairs OIG Comments. The Inspector General concurred with the recommendation and the improvement actions are acceptable.

Issue 4. Documentation for Monitoring Contract Audits Performed by Independent Public Accountants Should Be Improved

For the contract IPA's *Independent Auditor's Revised Report on the Department's 2005 and 2004 Principal Financial Statements* (Report No. AUD/FM-06-12A, December 15, 2005), OA auditors did not document the justification for their decision to perform a low-level review of the IPA's work and the receipt or review of 4 (40 percent) of 10 IPA deliverables, as follows:

Documentation on the Justification for OA Level of Review. The monitoring file documented that OA auditors performed a low-level review of the contract IPA's work. However, the monitoring file did not include documentation justifying a low-level review. The Manual requires auditors to follow the guidance in Government Accountability Office/PCIE Financial Audit Manual (FAM) 650 for monitoring and reviewing financial statement audits performed by contract IPAs.¹¹ FAM 650 states that the level of review is a judgment the auditor makes and generally should be made for each material financial statement line item. The auditor should consider the following eight factors:¹²

¹¹ Manual 24-10.

¹² FAM 650.36.

1. The type of report or letter auditors will issue.
2. Whether the IPA will issue a disclaimer of opinion because of a scope limitation.
3. Whether the auditors' report contains a disclaimer of opinion because of a scope limitation.
4. The IPA's independence, objectivity, and integrity.
5. The IPA's qualifications to perform the work.
6. The auditors' prior experience with the IPA.
7. The materiality of the line item in relation to the financial statements.
8. The combined inherent and control risk and the risk of material fraud.

Monitoring documentation did not include an evaluation of the eight factors or any other explanation of the justification for the decision to perform a low-level review. Although the monitoring file did not include the required documentation, OA expressed no assurance on the IPA's work in the report transmittal letter. FAM 650 recommends a low-level review when auditors express no assurance on the IPA's work.¹³

Documentation on the Dates of Receipt and Review of IPA Deliverables. To ensure appropriate oversight of IPA financial statement audits, FAM 650 requires auditors to review IPA deliverables such as audit programs, documentation supporting exceptions, audit completion checklists, and audit reports.¹⁴ Auditors should include documentation of their review of deliverables in the monitoring file.

OA's contract (Delivery Order No. S-AQMPD-04-D-0033-10, March 30, 2004) required the IPA to provide 10 deliverables by specific dates. For 4 (40 percent) of the 10 deliverables, auditors did not document the dates deliverables were received or reviewed. For three of the four deliverables, the draft audit plan and two final reports, auditors did not document the dates of receipt and review. For the other deliverable, another final report, auditors did not document the date of receipt. By interviewing OA staff and reviewing available documentation, we concluded OA had received and reviewed all deliverables.

Auditors did not document the justification for the level of OA review and the dates of receipt and review of IPA deliverables because the oversight plan did not include specific work steps requiring auditors to prepare this documentation. Establishing controls to ensure auditors prepare documentation in these two areas will improve the monitoring of contract IPA work.

¹³ FAM 650.10.

¹⁴ FAM 650.57 and 6.50A.01-02.

Recommendation 4. We recommended that the Inspector General require the AIG/A to establish controls to ensure oversight plans for monitoring IPA work include steps to document the justification for OA's level of review and the dates when deliverables are received and reviewed.

Department of State and Broadcasting Board of Governors Inspector General Comments. The Inspector General reported that the AIG/A has been required to establish controls to ensure oversight plans for monitoring IPA work include steps to document the justification for OA's level of review. The Financial Management Division (FM) revised its methodology for documenting the justification for its level of review of the contract IPA for the audit of the FY 2006 financial statements. The Inspector General also reported that FM began using a form that shows the due date and actual date received for items in the completion schedule including contract deliverables. The AIG/A approved these corrective actions on April 5, 2007.

Department of Veterans Affairs OIG Comments. The Inspector General concurred with the recommendation and the improvement actions are acceptable.

(original signed by:)

GEORGE J. OPFER
Inspector General

Background, Scope, and Methodology

Background

The OIG provides audit coverage for the Department of State and the Broadcasting Board of Governors. OA conducts all GAS audits and attestation engagements for the OIG and has one office with six divisions located in Rosslyn, VA. The divisions are as follows:

Contracts and Grants	International Programs
Financial Management	Security and Intelligence
Property and Procurement	Policy, Planning, and Quality Assurance

Scope and Methodology

In accordance with guidelines established by the PCIE, we tested compliance with the OIG's quality control system to the extent we considered appropriate. In addition, we reviewed the April 26, 2004, Department of Interior OIG report, *Peer Review of the U.S. Department of State Office of Inspector General for the Period April 1, 2002, through March 31, 2003*, and the March 31, 2006, OIG report, *Quality Assurance Review of the Office of Audits*. We also reviewed policies and procedures for conducting audits and attestation engagements contained in OA's March 2005 and July 2006 Manuals and policy letters that provided guidance on subjects not addressed in the Manual. The review was conducted during the period October 2006–February 2007. Five (25 percent) of 20 GAS reports issued during the March and September 2006 semiannual reporting periods were selected for review. In our opinion, the five reports represented a reasonable cross section of the 20 GAS reports.

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
AUD/FM-06-12A	December 15, 2005	<i>Independent Auditor's Revised Report on the Department's 2005 and 2004 Principal Financial Statements</i>
AUD/IQO-06-17	March 24, 2006	<i>Independent Auditor's Report on the Application of Agreed-Upon Procedures Relating to DECO, Inc., Task Order No. SALMEC-04-F-0996</i>
AUD/PP-06-08	March 31, 2006	<i>Independent Accountant's Report on the Application of Agreed-Upon Procedures Relating to Bureau of Information Resource Management Enterprise Network Management Office GSA-FEDSIM Millenia Contract Task Order GS-T0004AJM049</i>

Appendix A

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
AUD/SI-06-24	May 11, 2006	<i>Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors</i>
AUD/IP-06-35	September 6, 2006	<i>Audit of the Department's Reporting of Aircraft and Aircraft Parts</i>

General Comments

Three positive OA practices were observed. First, OA staff showed a high level of professionalism and expertise, and displayed a thorough knowledge of OA policies and procedures. Second, OA had developed and used thorough quality assurance checklists designed to ensure reports and project documentation met GAS and OA policies and procedures. Third, all OA staff met or exceeded the GAS continuing professional education requirements.

Department of State and Broadcasting Board of Governors Inspector General Comments



United States Department of State
and the Broadcasting Board of Governors

Inspector General

APR 25 2007

The Honorable George J. Opfer
Inspector General
Department of Veteran Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Mr. Opfer:

Thank you for the opportunity to comment on the draft report of the Department of Veterans Affairs, Office of Inspector General on the external peer review it conducted of the Department of State and Broadcasting Board of Governors, Office of Inspector General (OIG), Office of Audits (OA). The report expresses the opinion that OIG's quality control system design for OA met the requirements of the quality control standards established by the Comptroller General of the United States for a Federal government audit organization.

OIG concurs with all of the recommendations in the draft report and has commenced implementation of corrective actions. Your suggested improvements and recommendations will serve to strengthen OA's existing system of controls. As you requested, the following comments are in response to your recommendations.

Policies and Procedures Should Be Strengthened

OA has revised its audit manual to include guidance on: (a) taking corrective actions in the event of personal impairments, (b) avoiding personal impairments when providing nonaudit services by considering the two overarching principles and seven safeguards provided by *Government Auditing Standards* (GAS), and (c) monitoring contract independent public accountants nonfinancial audits and attestation engagements. The Assistant Inspector General for Audits (AIG/A) approved these revisions on 4/5/07.

Quality Assurance Reviews Should Be Performed

The AIG/A has been required to ensure the Policy, Planning, and Quality Assurance Division (PPQA) performs semiannual quality assurance reviews of at least one GAS audit from each OA division. PPQA will emphasize quality assurance reviews and begin performing them on a regular basis. The Quality Control Officer has recently completed other responsibilities and will be focusing on conducting the reviews. The AIG/A will adjust competing priorities and/or assign additional staff as appropriate to complete these reviews in accordance with internal procedures.

Address correspondence to: U.S. Department of State, Office of Inspector General, Washington, D.C. 20522-0308

Peer Review Recommendations Should Be Tracked and Followed Up

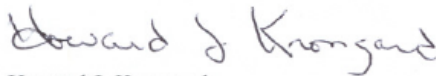
OA has established a database to use for tracking and following up on the implementation of external peer review and internal quality assurance review recommendations. PPQA is responsible for tracking and ensuring that follow-up actions are taken to address recommendations of external peer review reports and maintaining the database. The AIG/A approved these corrective actions on 4/5/07.

Documentation for Monitoring Contract Audits Performed by Independent Public Accountants Should Be Improved

The AIG/A has been required to establish controls to ensure oversight plans for monitoring independent public accountant work include steps to document justification for OA's level of review. The Financial Management Division (FM) revised its methodology for documenting the justification for its level of review of the contract independent public accountant for the audit of the FY 2006 financial statements. Also, FM began using a form that shows the due date and actual date received for items in the completion schedule including contract deliverables. The AIG/A approved these corrective actions on 4/5/07.

Please express my appreciation to your staff for their time, dedication and professionalism. Your recommendations will improve the overall quality of OA's audits. Should you have any questions, please call me at (202) 663-0361 or have your staff call Mark W. Duda, Assistant Inspector General for Audits, at (202) 663-0372.

Sincerely,



Howard J. Krongard
Inspector General

VA OIG Contact and Staff Acknowledgments

OIG Contact	Kent Wrathall (404) 929-5921
Acknowledgments	Ann Batson Henry Hoffman Manuel Mireles Charlene Moore Al Tate Willie Toomer Carla Vines Michael Worley
