

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



August 8, 2008

The Honorable Earl E. Devaney
Inspector General
U. S. Department of the Interior
1849 C Street, N.W.
Washington, DC 20240

Subject: Transmission of the Final Report — External Quality Control Review of the
Department of the Interior Office of the Inspector General Audit Organization

Dear Mr. Devaney:

The enclosed final report presents the results of our External Quality Control Review of the Department of the Interior's Inspector General Audit Organization. This review was conducted in accordance with the standards and guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. The report includes comments on the draft report (Exhibit C) from your Assistant Inspector General for Audits.

We concur with the proposed corrective actions to the recommendations and appreciate the assistance and professionalism demonstrated by your staff during this review. Please contact me or Evelyn R. Klemstine, Assistant Inspector General for Auditing, at 202-358-2572, if you or your staff have any questions or require additional information on this matter.

Sincerely,

A handwritten signature in black ink that reads "Robert W. Cobb".

Robert W. Cobb
Inspector General

Enclosure

National Aeronautics and Space Administration

Office of Inspector General

Washington, DC 20546-0001



AUG 08 2008

Robert Romanyshyn
Assistant Inspector General for Audits
U. S. Department of the Interior
1849 C Street, N.W.
Washington, D.C. 20240

Dear Mr. Romanyshyn:

We have reviewed the system of quality control for the audit function of the United States Department of the Interior (DOI) Office of Inspector General (OIG) in effect for the year ended September 30, 2007. A system of quality control encompasses the OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, 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 DOI 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 system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. 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 quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Departures from the system may occur and not be detected because there are inherent limitations in the effectiveness of any system of quality control. 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 the policies or procedures may deteriorate. Our scope and methodology appears as Exhibit A. General comments appear as Exhibit B.

In our opinion, the system of quality control in effect for the year ended September 30, 2007, for the audit function of the DOI OIG has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the period noted to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention, though they did not impact our opinion. These matters are described in the findings and recommendations that follow.

Finding 1. Certification of Audit Staff Independence

GAGAS, paragraph 3.04, requires auditors and audit organizations to “maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.” To ensure compliance with the independence requirements, GAGAS paragraph 3.08, requires audit organizations to establish policies and procedures that will enable the identification of personal impairments to independence. It further states that audit organizations should “communicate” the policies and procedures “to all auditors in the organization and assure understanding of requirements through training or other means such as auditors periodically acknowledging their understanding” of those policies and procedures. To comply with these standards, DOI OIG audit policy—established in a memorandum—requires that employees report to their supervisors all potential or actual personal, financial, and organizational conflicts of interest that could have an impact on their assigned work. However, the audit policy does not specify the procedures employees must use to report such potential or actual personal, financial, and organizational conflicts of interest. According to the Deputy Assistant Inspector General for Audits, the audit staff is required to sign a Statement of Independence form for each assignment and confirm their independence on their biweekly time reports. However, the Deputy was unable to provide us written documentation of that requirement.

We reviewed nine audits and for four of those audits, we found that five auditors had not documented their independence either on the Statement of Independence or on their biweekly time reports. In addition, for three of the nine audits, four independent referencers had not documented their independence either on the Statement of Independence or on their biweekly time reports. Although we were unable to question one of the auditors, the remaining four auditors and four independent referencers stated that not signing the Statement of Independence or biweekly time reports was an oversight. For the staff at the Western Regional Office, a contributing factor to this oversight could be that prior to April 2007 this Office used a time report system that did not include confirmation of independence. During our follow-up contact with these auditors, we found no instances of impairments. However, establishing specific written procedures for reporting either independence or conflicts of interest would help increase assurance that potential or actual impairments by auditors are identified, communicated, and addressed in a timely manner.

Recommendation 1.

The DOI OIG management should revise its written policy to include written procedures for certifying independence.

View of Responsible Official:

The Assistant Inspector General for Audits concurred stating that he will issue a policy memorandum to all Office of Audits staff requiring every staff member to sign an annual "Statement of Independence" to verify that they are independent in fact and in appearance. The policy will also require the field office manager or team leader on each engagement to discuss the independence requirement with each team member and document the results of these discussions in the appropriate section of AutoAudit, an electronic audit workpaper database. The policy memorandum will be issued no later than September 30, 2008.

Finding 2. Preparation of Workpapers for the Consolidated Financial Statement Audit

DOI OIG Office of Audits oversees the financial statement audits performed under contract by a certified public accounting (CPA) firm and has adopted the GAO Financial Audit Manual (FAM) as its methodology for designing and documenting procedures to use the work of other auditors. The FAM section 650, "Using the Work of Others," requires auditors to determine whether the work is sufficient and acceptable for their use and to document their review of the CPA firm's work.

Although we found evidence that the audit team was overseeing the CPA firm's work for the consolidated financial statement audit, we noted that 27 of the 55 (49%) oversight workpapers were prepared at least 6 months after the final report was issued. In addition, 14 of the 27 (52%) workpapers were prepared more than 1 year after the report was issued. The Acting Director explained that this occurred because his directorate was understaffed and he was performing dual roles as the Deputy Director and Acting Director while keeping abreast of the requirements for current-year financial statement audits. Workpapers provide a link between the work performed and the conclusions reached. When workpapers are not prepared timely, supervisors are unable to monitor and guide the progress of the oversight effort effectively, which increases the risk that the work might not be performed in accordance with the FAM.

Recommendation 2.

The DOI OIG management should reemphasize that audit staff must comply with the FAM section 650 to ensure that workpapers are prepared for the consolidated financial statement audit prior to issuing the report.

View of Responsible Official:

The Assistant Inspector General for Audits concurred stating that he has discussed the condition with his Financial Statement Oversight Team and will have his Deputy monitor and follow up with the team on a regular basis to ensure workpapers are prepared and reviewed prior to issuing reports.

A handwritten signature in black ink, appearing to read 'Evelyn R. Klemstine', with a large, stylized loop at the end.

Evelyn R. Klemstine
Assistant Inspector General for Auditing
NASA Office of Inspector General

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the DOI OIG's system of quality control to the extent we considered appropriate. In all, we reviewed 11 reports. Compliance testing included reviews of 9 of 74 audit reports issued during the October 2006 to March 2007 and April 2007 to September 2007 semiannual reporting periods. These audits were selected to include significant audit topics and work performed at the DOI OIG field offices, to test the internal quality assurance review process, and to follow up on prior external quality control review findings in those regions. The President's Council on Integrity and Efficiency guidance requires that we also review the most recently completed financial statement audit. Accordingly, among the 9 audits, we reviewed the Office of Audits oversight activities for 2 DOI financial statement audits and 1 consolidated financial statement audit for fiscal years 2006 and 2005 that were performed under contract by KPMG, LLP. We also reviewed 2 of the 4 internal quality assurance reviews performed by the OIG since the last external peer review.

DOI OIG Offices Reviewed

We performed on-site reviews and assessed DOI OIG audits completed at the following locations:

Headquarters (HQ), Washington, DC
 External Audits (R), Reston, VA
 Central Region (C), Lakewood, CO
 Western Region (W), Sacramento, CA

DOI OIG Reports Reviewed

Report Number	Report Date	Region	Report Title
Grant Audits			
R-GR-FWS-0020-2005	11/15/2006	R	U.S. Fish & Wildlife Service Federal Assistance Grants Administered by the District of Columbia, Department of Health, from October 1, 2002 through September 30, 2004
R-GR-FWS-0008-2005	05/31/2007	R	U.S. Fish & Wildlife Service Federal Assistance Grants Awarded to the Commonwealth of Pennsylvania, Department of Health, from July 1, 2002 through June 30, 2004

DOI OIG Reports Reviewed

Report Number	Report Date	Region	Report Title
Performance and Compliance Audits			
C-IN-MOA-0007-2005	01/30/2007	C	U.S. Department of the Interior Radio Communications Program
C-IN-MMS-0006-2006	12/05/2006	C	Minerals Management Service's Compliance Review Process
W-CX-NPS-0004-2007	09/20/2007	W	Audit of National Park Service Contract No. C2350040050 with the University of California at Davis
W-FL-BLM-0083-2004	04/05/2007	W	Use of Land Sale Revenue Resulting From the Southern Nevada Public Land Management Act
Financial Statements Audits			
X-IN-BIA-0014-2006	03/07/2007	HQ	Independent Auditor's Report on the Indian Affairs Financial Statements for Fiscal Years 2006 and 2005
X-IN-BLM-0022-2006	02/12/2007	HQ	Independent Auditor's Report on the Bureau of Land Management Financial Statements for Fiscal Years 2006 and 2005
X-IN-MOA-0018-2006	11/15/2006	HQ	Independent Auditor's Report on the Department of the Interior Financial Statements for Fiscal Years 2006 and 2005
Internal Quality Assurance Audits			
D-QA-OIG-0003-2006	07/11/2007	HQ	Quality Assurance Review Report of the Western Regional Office
D-QA-OIG-0001-2007	02/01/2008	HQ	Quality Assurance Review Report of the Central Region Office

General Comments

We observed numerous positive audit practices in the OIG's audit organization. Most importantly, the audit staff showed a high level of professionalism and expertise. The audit staff displayed a thorough knowledge of the audits we reviewed and the audit organization's policies and procedures.

We also noted commendable practices and controls instituted to help ensure audits were performed in accordance with professional standards. In particular, the DOI OIG uses an electronic workpaper system that allows team members to access and reference audit files from a central server and also allows the staff access to current policies and procedures, which minimizes duplication of materials in the individual audit files. In addition, the internal quality assurance reports we reviewed contained thorough coverage of the organizational elements assessed.

We appreciate the time, effort, and professionalism of the DOI OIG staff during our review.

Management's Comments



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

JUL 22 2008

Ms. Evelyn R. Klemstine
Assistant Inspector General for Auditing
National Aeronautics and Space Administration
300 E St. SW
Washington, DC 20546-0001

Dear Ms. Klemstine:

Thank you for the opportunity to comment on your draft letter, presenting the results of your office's External Peer Review of the Department of the Interior (DOI) Office of Inspector General (OIG), Office of Audits. We are committed to maintaining high quality audit and other services and to monitoring our performance to assure that we do so. The peer review process allows us an excellent opportunity to assess and improve our performance. We also appreciate the professionalism that was displayed by your team during the course of your review.

We agree with the conditions presented in your draft letter. A memorandum detailing the results of your review will be issued and specific actions will be taken to address the two conditions as follows:

1) Certification of Audit Staff Independence – The DOI OIG management should revise its written policy to include written procedures for certifying independence.

We agree with this condition and the Assistant Inspector General for Audits will issue a policy memorandum to all Office of Audits staff. The policy will include a "Statement of Independence" that every staff member will be required to sign every year to verify that they are independent in fact and in appearance. The policy will also require the field office manager or team leader on each engagement to discuss the independence requirement with each team member, and document the results of these discussions in the appropriate section of AutoAudit. This policy memorandum will be issued no later than September 30, 2008. In addition, an e-mail will be sent to all Office of Audits staff alerting them to where to find the policy.

2) Preparation of Workpapers for the Consolidated Financial Statement Audit - The DOI OIG management should reemphasize that audit staff must comply with the FAM section 650 to ensure that workpapers are prepared for the consolidated financial statement audit prior to issuing the report.

We agree with this condition that it is unacceptable that workpapers were being prepared at least 6 months after the final reports were issued in some cases. We have discussed this condition with the Financial Statement Oversight team. As an added control, my Deputy Assistant General for Audits will monitor and follow up with the team on a regular basis. We recognize that timely preparation and review of workpapers are important in our oversight efforts.

If you have any questions, please call me at (202) 208-5603.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert Romanynshyn".

Robert Romanynshyn
Assistant Inspector General
for Audits