



UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

OFFICE OF
THE INSPECTOR GENERAL

July 29, 2011

Report No. 7A-PR-00-11-078

Mary L. Kendall
Acting Inspector General
Office of Inspector General
Department of the Interior
1849 C Street, N.W., MS 4428
Washington, DC 20240

Subject: Report on the System Review of the U.S. Department of the Interior Office of
Inspector General Audit Organization

Dear Ms. Kendall:

We have reviewed the system of quality control for the audit organization of the Department of the Interior (DOI) Office of Inspector General (OIG) in effect for the year ended September 30, 2010. A system of quality control encompasses the DOI OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The DOI OIG is responsible for designing a system of quality control and complying with it to provide the DOI OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the DOI OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed DOI OIG personnel and obtained an understanding of the nature of the DOI OIG audit organization, and the design of the DOI OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the DOI OIG's system of quality control. The engagements selected represented a reasonable cross-section of the DOI OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with DOI OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the DOI OIG's audit organization. In addition, we tested compliance with the DOI OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the DOI OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the 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.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the DOI OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the DOI OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on the DOI OIG's monitoring of work performed by IPAs.

In our opinion, the system of quality control for the audit organization of DOI OIG in effect for the year ended September 30, 2010, has been suitably designed and complied with to provide the DOI OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The DOI OIG has received a peer review rating of *pass*.

We noted, however, conditions that warrant your attention, though they did not impact our opinion. These matters are described in more detail in Enclosure 1 to this report, under findings and recommendations.

Enclosure 2 to this report identifies the offices of the DOI OIG that we visited and the engagements that we reviewed.

The DOI OIG Assistant Inspector General for Audits, Inspections, and Evaluations concurred with our findings and recommendations in a July 22, 2011 response to our draft report. The DOI OIG plans to take action to address our findings and revise its policies and quality assurance review process to emphasize the conditions noted in our report.

The Office of Audits, Inspections, and Evaluations plans to have its new policies issued and the new quality assurance process in place by September 30, 2011. The Assistant Inspector General for Audits, Inspections, and Evaluations' response is included as Exhibit A.

I would like to express my sincere appreciation for the cooperation and consideration extended to my staff. If you have any questions, please contact me or Michael R. Esser, Assistant Inspector General for Audits, at 202-606-1200.

Sincerely,

A handwritten signature in black ink, reading "Patrick E. McFarland". The signature is written in a cursive, flowing style with a large initial "P".

Patrick E. McFarland
Inspector General

Enclosure

FINDINGS AND RECOMMENDATIONS

Audit Risk Assessment

We found that the audit risk assessment procedures need to be re-emphasized to the audit staff. The audit documentation for 5 of the 10 audits that we reviewed contained no audit risk assessment. The five reports are:

- C-IN-MMS-0007-2008 – Mineral Management Service: Royalty-in-Kind Program's Oil Volume Verification Process
- C-IN-MOA-0010-2008 – DOI's Accountability and Preservation of Museum Collections
- VI-EV-VIS-0003-2009 – Monitoring of Capital Improvements Projects – Virgin Islands; Port Authority
- K-CX-NPS-0006-2009 – Westwind Contracting, Inc. Settlement Proposal
- ER-IN-OSS-0009-2009 – International Technical Assistance Program

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as insufficient or inappropriate evidence, an inadequate audit process or intentionally omitted or misleading information. *Government Auditing Standards* require auditors to plan the audit to reduce audit risk to an appropriate level. *Government Auditing Standards* also require auditors to assess audit risk by gaining an understanding of internal control as it relates to the specific objectives and scope of the audit. In addition, the DOI OIG Audit Memorandum No. 05-OA-2008, Audit Risk, states: "During audit planning, the audit team must assess audit risk..." The Audit Memorandum establishes policy and provides detailed procedures for assessing audit risk.

Recommendation 1

We recommend that the DOI OIG management ensure that during the planning stage, audit teams complete and document an audit risk assessment for all *Government Auditing Standards* audits.

Views of Responsible Office: Agree

Sampling Methodology

We found that the DOI OIG audit reports and the corresponding working papers did not always include an adequate description of the sampling methodology used in conducting

the audits. Two of the 10 audits that we reviewed did not contain a sampling methodology. The two reports are:

- C-IN-MMS-0007-2008 – Mineral Management Service: Royalty-in-Kind Program's Oil Volume Verification Process
- VI-EV-VIS-0003-2009 – Monitoring of Capital Improvements Projects – Virgin Islands; Port Authority

Government Auditing Standards state that when the sampling methodology supports the auditors' findings, conclusions or recommendations, the auditors should describe the sampling design and state why the design or plan was chosen, including whether the results can be projected to the intended population. Without an adequate description of the sampling methodology, reviewers and readers may not understand the work conducted and the significance of the findings. We could not find any DOI OIG policies or procedures explaining the methodology of sampling or the requirement to include a description of the methodology in audit reports.

Report No. C-IN-MMS-0007-2008 states that to accomplish the objectives, samples of sales proprieties were selected. However, no description of the sampling methodology is mentioned in the audit report. In addition, Strategic Petroleum Reserve sampling and testing was performed and referred to in the working papers; however, the sampling methodology was not mentioned in the report.

Report No. VI-EV-VIS-0003-2009 states that 12 projects were selected for sampling. Within another part of the report, we found that the total number of projects was 109. There was no sampling methodology mentioned in the audit report or working papers. In addition, the referencer's comment sheet requested an explanation and justification for the sample selected. The comment given was that it was randomly sampled. However, this is not shown in the working papers.

None of the reports or working papers stated whether the sample results could be projected to the population.

Recommendation 2

We recommend that the DOI OIG management: 1) ensure that a sampling methodology is described in the audit report and working papers for any audit that uses sampling; and, 2) issue a memorandum providing guidance for all of the audit offices to include a description of the sampling methodology in their audit reports and working papers.

Views of Responsible Office: Agree

Report Timeliness

We found that the DOI OIG did not comply with *Government Auditing Standards* and its own audit policy and procedures regarding timeliness. Four of the 10 audits reviewed were not issued in a timely manner. Those reports are:

<u>Report Number</u>	<u>Number of Months over the 1 Year Period</u>
▪ C-IN-MMS-0007-2008	11 months
▪ VI-EV-VIS-0003-2009	6 months
▪ C-IN-MOA-0010-2008	4 months
▪ ER-IN-OSS-0009-2009	3 months

Government Auditing Standards state to be of maximum use, providing relevant evidence in time to respond to officials of the audited entity, legislative officials, and other users' legitimate needs is the auditors' goal. Likewise, the evidence provided in the report is more helpful if it is current. Therefore, the timely issuance of the report is an important reporting goal for auditors.

DOI OIG Audit Memorandum No. 04-OA-2005, Audit Timeliness and Milestones, states that the timely issuance of audit reports is a key factor in their usefulness to Departmental managers. Significant delays increase the risk that the audit information is outdated or not meaningful to current conditions.

The Audit Memorandum further states that the OIG policy for the maximum elapsed days from start of the review (audit or evaluation) to issuance of the final report is 1 year. The 1-year timeframe pertains to complex internal audits and evaluations. Smaller scale evaluations, audits of contracts and grants, and other limited scope reviews should be completed within shorter periods.

Also, the Audit Memorandum states that the timeline for issuing final reports within 1 year of the start date begins with the date of the entrance conference and ends with the issuance of the final audit report. The audit team should present options to complete the review within 1 year if delays are expected. Some of these options include adding additional staff, reducing the scope, and revising the objectives. Also, the automated work paper software, AutoAudit, includes a number of timeline steps to allow for monitoring of the issuance of the final report within 1 year.

Recommendation 3

We recommend that DOI OIG management: 1) ensure that audit reports are issued on a timely basis, as required by *Government Auditing Standards* and DOI OIG policies; and, 2) document factors that will delay the issuance of a timely report and request additional needs to meet the 1-year timeframe.

Views of Responsible Office: Agree

SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the DOI OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 10 of 33 audit and attestation reports issued during the period October 1, 2009, through September 30, 2010, and semiannual reporting periods ending March 31, 2010 and September 30, 2010. We also reviewed the internal quality control reviews performed by the DOI OIG.

In addition, we reviewed the DOI OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period October 1, 2009, through September 30, 2010. During the period, the DOI OIG contracted for the audit of its agency's Fiscal Year 2008 and 2009 financial statements.

We conducted our review at the DOI OIG headquarters office in Washington, DC and visited the Herndon, Virginia office.

Reviewed Engagements Performed by the DOI OIG

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
ER-IN-BIA-0014-2009	11/10/2009	OIG's Independent Report on the "Office of National Drug Control Policy Performance Summary Report – BIA"
Q-IN-OST-0001-2009	11/18/2009	Independent Auditors' Report on the Tribal and Other Trust Fund Financial Statement Audit for Fiscal Year 2009 and Fiscal Year 2008
K-CX-NPS-0006-2009	11/24/2009	Westwind Contracting, Inc. Settlement Proposal for Termination for Convenience of the Government under Contract No. C5297080232, Hole in the Donut Remediation in Everglades, With the National Park Service
C-IN-MOA-0010-2008	12/16/2009	DOI's Accountability and Preservation of Museum Collections

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
R-GR-FWS-0002-2010	02/18/2010	U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Massachusetts, Department of Fish and Game, Division of Fisheries and Wildlife
C-IN-MMS-0007-2008	05/25/2010	Mineral Management Service: Royalty-in-Kind Program's Oil Volume Verification Process
R-GR-FWS-0003-2010	07/09/2010	U.S. Fish and Wildlife Service Wildlife and Sport Fish Restoration Program Grants Awarded to the State of Illinois, Department of Natural Resources
ER-IN-OSS-0009-2009	07/21/2010	Audit of the International Technical Assistance Program
VI-EV-VIS-0003-2009	09/08/2010	Monitoring of Capital Improvements Projects – Virgin Islands; Port Authority – Government of the Virgin Islands

Reviewed Monitoring Files of the DOI OIG for Contracted Engagements

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
X-IN-MOA-018-2009	11/16/2009	Independent Auditors' Report on the Financial Statements for Fiscal Years 2009 and 2008



**OFFICE OF
INSPECTOR GENERAL**
U.S. DEPARTMENT OF THE INTERIOR

JUL 22 2011

Mr. Michael R. Esser
Assistant Inspector General for Audits
U.S. Office of Personnel Management
1900 E St. NW
Washington, DC 20415

Re: Response to Draft Report on the System Review of the U.S. Department of the Interior
Office of Inspector General

Dear Mr. Esser:

Thank you for the opportunity to comment on your draft report, presenting the results of your office's External Peer Review of the U.S. Department of the Interior Office of Inspector General, Office of Audits, Inspections, and Evaluations. We are pleased that your office issued an opinion that our system of quality control for the year ended September 30, 2010 has been suitably designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material aspects. We also appreciate the professionalism that was displayed by your team during the course of your review.

We are committed to maintaining high quality audits and the peer review process allows us an excellent opportunity to assess and improve our performance. We agree with the conditions and recommendations presented in your draft report. A memorandum transmitting the results of your review will be issued and actions will be taken to address the areas of audit risk assessment, sampling methodology, and report timeliness. We plan to revise both our policies and quality assurance review process and will emphasize the conditions noted in your draft report. We plan on having the new policies issued and our new quality assurance process in place by September 30, 2011.

If you have any questions concerning this response, please call me at 202-208-5512.

Sincerely,

A handwritten signature in cursive script that reads "Kimberly Elmore".

Kimberly Elmore
Assistant Inspector General
for Audits, Inspections, and Evaluations