System Review Report

August 3, 2020

The Honorable Mark L. Greenblatt
Inspector General
U.S. Department of the Interior
1849 C Street NW
Washington, D.C.  20240

Dear Mr. Greenblatt:

We have reviewed the system of quality control for the audit organization of the U.S. Department of the Interior (DOI), Office of the Inspector General (OIG), in effect for the year ended September 30, 2019. A system of quality control encompasses DOI OIG’s organizational structure, and the policies adopted, and procedures established to provide it with reasonable assurance of conforming with Government Auditing Standards (GAS). The elements of quality control are described in those standards.

DOI OIG is responsible for establishing and maintaining a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and DOI OIG’s compliance therewith, based on our review.

Our review was conducted in accordance with GAS and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General. 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 DOI OIG’s system of quality control sufficient to assess the risks implicit in its audit function.

Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with DOI OIG’s system of quality control. The audits selected represented a reasonable cross-section of the DOI OIG’s audit organization. Prior to concluding the peer 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 audit organization. In addition, we tested compliance with DOI OIG’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of DOI OIG’s policies and procedures on selected audits. Our review was based on selected tests; therefore, the review 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; 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.

We noted the following deficiency during our review:

The DOI OIG’s implementation of its system of quality control did not provide reasonable assurance that two of the six audits reviewed were performed in compliance with GAS and DOI OIG policies and procedures.

We determined that the DOI OIG’s control structure did not assure compliance with GAS and its own policies and procedures for sampled audits 2017-FIN-053 and 2018-FIN-032, both issued by the same DOI OIG Unit. We determined that DOI OIG auditors did not use sufficient and appropriate evidence to support some statements and conclusions. This can be attributed to breakdowns with audit planning, assessment of evidence, supervision, and compliance with quality control policies and procedures. After discussions with DOI OIG during our review, DOI OIG withdrew these two reports from its public website. DOI OIG officials stated that it is performing additional audit work and Quality Assurance Reviews (QAR) for these reports, and, once complete, these reports may be reissued and re-posted to the DOI OIG public.¹ Additionally, DOI OIG officials told us that QARs will be completed for the rest of the audits issued by the this Unit over the course of our review period.

Enclosure 1 provides a detailed, technical discussion of the issues related to the deficiency we identified and our recommendations for corrective action. Enclosure 2 to this report identifies the DOI OIG offices that we visited, a description of the work we performed, and a listing of the audits we reviewed. Finally, the DOI OIG response is included as Enclosure 3.

In our opinion, except for the deficiency described above and in the enclosure, the system of quality control in effect for the DOI OIG’s audit organization for the year ending September 30, 2019, was 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. Audit organizations can receive a rating of pass, pass with deficiencies, or fail. The DOI OIG has received an External Peer Review rating of pass with deficiency.

¹ DOI OIG reissued one of these reports on April 28, 2020. We did not review this reissued report for GAS compliance.
In addition to reviewing the DOI OIG’s system of quality control to assure adherence with GAS, we also applied certain limited procedures in accordance with CIGIE guidance. The applicable CIGIE guidance involved DOI OIG monitoring of engagements performed by Independent Public Accountants (IPA) under contract, where the IPA served as the principal auditor.

Please note that the monitoring of engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of GAS. The purpose of our limited procedures was to determine whether the DOI OIG has controls to ensure that the IPAs performed contracted work in accordance with professional standards. Our objective was not to express an opinion, and we do not express an opinion on the DOI OIG monitoring the work performed by IPAs.

Thank you again for the cooperation and courtesies extended to our staff during the review.

Sincerely,

Michael E. Horowitz
Inspector General

Enclosures
Deficiency: DOI OIG's Implementation of its System of Quality Control Did Not Provide Reasonable Assurance that Two of the Six Audits Reviewed Were Performed in Compliance with Government Auditing Standards

We reviewed the adequacy of the Department of the Interior (DOI) Office of Inspector General’s (OIG) policies and procedures to determine whether those policies and procedures, if properly adopted and implemented, would provide the DOI OIG with reasonable assurance of compliance with Government Auditing Standards (GAS). The Audits, Inspections and Evaluations (AIE) Policy Manual stated that the internal quality control system consists of: (1) supervision of work performed, (2) the referencing of individual reports, and (3) completion of Quality Assurance (QA) checklists. Generally, our review of the policies and procedures concluded that they were adequate if properly implemented.

However, we found that two out of the six performance audits, both issued by the same DOI OIG Unit, we reviewed did not fully comply with GAS or DOI OIG policies and procedures.

The first was an audit of three National Park Service (NPS) contracts issued in support of the Grand Canyon River Logistics Program (NPS audit). According to DOI OIG, this audit was initiated after it received allegations of certain contracting irregularities. The audit objectives were to determine whether the NPS: (1) complied with the Federal Acquisition Regulation (FAR) pre-award requirements; (2) awarded the contracts’ task orders in accordance with the terms of the contracts and FAR subpart 16.5; and (3) monitored and oversaw the contracts during their period of performance, including monitoring contractor compliance with drug screening and criminal background checks. The report contained no recommendations and concluded that NPS complied with applicable federal regulations and contract provisions during the contracts' pre-award periods and when awarding the 13 task orders, and that the NPS monitored contractors’ compliance with drug screening and background check policies. Further, DOI OIG stated that it did not identify any evidence that supported the allegations it received.

The second was an audit of costs claimed by the Chicago Horticultural Society (CHS) under a grant awarded by the Bureau of Land Management (BLM) (CHS audit). The audit objective was to determine whether the interim costs claimed by the CHS between May 1, 2015, and August 31, 2017, were allowable and allocable, and in compliance with applicable federal regulations, BLM policies and procedures, and contract terms and conditions. The DOI OIG made 10 recommendations to the BLM and identified $530,537 in questioned costs.

2 Through our review, we found that DOI OIG revised and restructured its policies effective July 1, 2019. However, none of the audits within our sample were conducted under these new policies. Therefore, our review focused on the AIE Policy Manual effective through June 30, 2019.

3 For more information regarding our scope and methodology, see Enclosure 2.

4 DOI OIG Audit Report 2018-FIN-032: The NPS Complied With the Terms of Three Contracts for the Grand Canyon River Logistics Program.

In these two reports, we identified noncompliance with reporting standards that resulted in some report statements and conclusions for which the audit file lacked sufficient and appropriate supporting evidence. Specifically, in our review of the NPS report, we found statements and conclusions that were inaccurate or not supported by sufficient evidence and found analyses that were not documented or were incomplete. In our review of the CHS audit report, we were unable to reach the same reported questioned costs as the CHS team because the evidence in the audit file was insufficient and included an incomplete evaluation of the evidence obtained.

We also identified several instances where the reported scope and methodologies for both reports lacked sufficient and appropriate supporting evidence. For the CHS audit report, we determined that the DOI OIG description of the scope used to address the audit objectives was incomplete. For the NPS audit, the methodology included inaccurate descriptions of the testing conducted and the omission of relevant criteria used to support the report's conclusions.

Audit Planning

GAS requires auditors to assess the risk of the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, referred to as “audit risk.” For the NPS audit, the audit team identified the risk to the audit as high, however the audit team did not implement steps to mitigate this risk, as required by GAS and DOI OIG policy. Further, we found that the audit team did not adequately develop its assessment of audit risk during planning, specifically in the areas of: nature of the program, internal controls, information systems controls, laws and regulations, criteria, prior corrective actions, and evidence. For example, it appeared the risk assessment of internal controls relied solely on interviews with NPS personnel, which we found to be insufficient. We also found no evidence that the audit team evaluated the NPS's prior corrective actions taken to address the findings of a previous DOI OIG investigative report.

In addition, given the allegations of contracting irregularities associated with the NPS audit, the audit team acknowledged the potential for fraud related to the audit objectives. However, we found that the audit file did not include, as required by GAS, procedures for the DOI OIG to obtain reasonable assurance of detecting fraud, determine whether fraud had likely occurred, and express its effect on audit findings.

Evidence and Documentation

In both the NPS and CHS audit, we found weaknesses with DOI OIG's implementation of GAS requirements and DOI OIG policies related to the sufficiency and appropriateness of evidence used to support the auditor's findings and conclusions in relation to the audit objectives.

The objectives and scope of the NPS audit indicated that the audit team would review three contracts and verify that task orders were awarded in compliance with contract terms and conditions. However, we found that the audit team relied heavily on the contract award's solicitation, rather than the contracts, for its analysis and conclusions for two of the three contracts. We believe this is insufficient because solicitations are not the same as executed contracts and do not contain contract requirements.
Further, in its audit file and as stated in the final audit report, the NPS audit team concluded that NPS issued 13 task orders in compliance with FAR. However, in our review of the audit file, we did not find any methodology or testing on which the audit team based this determination. In another example, the audit team concluded that the NPS ensured there was adequate competition amongst contractors; however, we found insufficient evidence in the audit file to support that conclusion.

The NPS audit team also did not assess the reliability of evidence provided by the audited entity to support corrective actions taken to address the audit team’s determination that NPS employees were performing required contractor tasks. Instead, the DOI OIG accepted an undated and unsigned electronic document as sufficient evidence to demonstrate that NPS clarified tasks for its employees and contractors. However, this document lacked certain identifiers that would demonstrate that it was an official document or information as to who sent or received it. Further, we found evidence in the audit file in which one of the contractors expressed disagreement with the NPS document. However, nothing in the audit file indicated that the audit team considered this information in concluding on this matter.

In addition, the audit team concluded that NPS contracting personnel never compared the government cost estimates to the bid amounts submitted by potential vendors. However, the NPS audit team referenced testimonial evidence that contradicted this conclusion, and we found no other testing or evidence on this matter in the audit file. Similarly, while the audit team concluded that contractors did not receive unequal access to information and that NPS employees performed required contractor tasks, we found inadequate support documented in the audit file for these conclusions.

For the CHS audit, the CHS audit team concluded that CHS incorrectly claimed $189,902 for intern expenses. However, we found that the audit team calculated questioned costs using an estimated hourly rate rather than using the available accounting records, which included the actual amounts CHS claimed for intern salary, fringe benefits, and indirect costs. As a result, in its report the DOI OIG misstated questioned costs for salary, fringe benefits, and indirect costs. In addition, the CHS audit team found that seven interns hired by CHS exceeded the allowed age limit. However, we determined that the audit team relied on a CHS spreadsheet and performed no additional testing to validate the reliability of intern ages provided on the spreadsheet. Further, there were two additional instances where the CHS audit team questioned costs, but we, as experienced auditors and having no connection to this audit, were unable to reach the same conclusion based on our review of the methodology described and evidence in the audit file.

**Supervision and Quality Control**

We found indications that both audits lacked adequate supervision and quality control according to both GAS and DOI OIG policies.

Specifically, in the NPS audit, we identified supervisory weaknesses with ensuring: (1) the sufficiency and appropriateness of the evidence obtained to support findings and conclusions; (2) the auditors’ work was accurate, complete, and clear to enable an experienced auditor having no previous connection to the audit, to understand the nature, timing, extent, and results of procedures performed, the evidence obtained and its source, and the conclusions reached; (3) the
QA checklist was complete and accurate; and (4) the views of responsible auditee officials were reported.

Similarly, in the CHS audit file, we identified: (1) undocumented significant changes made to the audit objectives and scope, as well as an incomplete internal control assessment; (2) insufficient and inappropriate evidence used to support findings and conclusions and insufficient detail of the audit documentation; (3) the report's omission of the views of responsible auditee officials and corrective actions taken for an identified finding; (4) and the inclusion of a report recommendation that did not address the deficiency identified.

Finally, we identified issues with both of the audit teams' implementation of quality control requirements. As mentioned above, we found that both audit teams relied on incomplete and insufficient evidence to support the report findings and conclusions and that this was not identified and corrected through adequate supervision. Further, in respect to the other aspects of the DOI OIG quality control system, we found that both audit teams: (1) inadequately cross-indexed the reports, which was evidenced by unindexed report facts, insufficient indexes to support the reports’ findings and conclusions, and inadequate evidence, none of which was identified or corrected through the independent referencing process; and (2) did not document complete and accurate QA checklists.

Conclusion and Recommendation

We believe the noncompliance with GAS requirements in both the NPS and CHS reports can be attributed to the inadequate implementation of these standards and DOI OIG policies in the areas of audit planning, assessment of evidence, supervision, and quality control. Overall, if the NPS audit team had more fully developed their audit procedures to better obtain reasonable assurance that the evidence obtained was sufficient and appropriate to support the auditors’ findings and conclusions in relation to the audit objectives, some of the deficiencies we identified may have been avoided. Further, based on our review of the NPS and CHS audit files, we believe these files were not prepared with sufficient enough detail to enable an experienced auditor having no previous connection to the audit, to understand the nature, timing, extent, and results of procedures performed; the evidence obtained and its source; and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. We believe more robust supervision of these audit teams and proper implementation of the DOI OIG quality assurance process could have also helped prevent the deficiencies we identified.

Based on our review, we provided the DOI OIG the following recommendation. Enclosure 3 of this report includes the DOI OIG's response, in which the DOI OIG concurs with this recommendation and states the corrective actions it has or will be taking to address the recommendation, including updates to DOI OIG policies and standard operating procedures, Quality Assurance Reviews of the two reports discussed in this report as well as other reports issued or to be issued by the same division, and the training of staff.

Recommendation 1 - To ensure compliance with GAS requirements, assess its current policies and procedures related to audit planning, documentation of evidence, supervision, and reporting to obtain a better understanding of the cause for the deficiency identified in this review, and update and train staff on applicable policies and procedures as necessary.
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 7 of 22 audit reports issued during the period October 1, 2018, through September 30, 2019. Additionally, we selected one audit report issued in Fiscal Year (FY) 2018 in order to review an audit report that had undergone the DOI OIG’s Quality Assurance Review (QAR). We also reviewed the internal quality control reviews performed by DOI OIG.

Within the seven audits issued during FY 2019, two are reports where the DOI OIG monitored the work performed by an Independent Public Accounting Firm (IPA) where the IPA served as the auditor during the period October 1, 2018, through September 30, 2019. During this period, the DOI OIG contracted for the audits of its agency’s financial statements and its agency’s information security programs that were performed in accordance with Government Auditing Standards.

We visited DOI OIG offices in Washington, D.C.; Herndon, Virginia; and Lakewood, Colorado.

In addition, we reviewed the training records of selected DOI OIG employees to determine whether they had obtained the required continuing professional education credits. We determined that the training data we received from the DOI OIG and used in this report were sufficiently reliable given the audit objectives and intended use of the data.

Table 1. Reviewed Audits Issued by DOI OIG

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Report Number</th>
<th>Report Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/26/2019</td>
<td>2017-ER-015-A</td>
<td>Improvement Needed in Internal Controls for the Use of Convenience Checks at DOI</td>
</tr>
<tr>
<td>10/30/2018</td>
<td>2018-FIN-032</td>
<td>The NPS Complied With the Terms of Three Contracts for the Grand Canyon River Logistics Program</td>
</tr>
<tr>
<td>1/8/2018</td>
<td>2017-FIN-032</td>
<td>Audit of Grant No. P13AF00113 Between the National Park Service and the Connecticut Department of Economic and Community Development</td>
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JUL 23 2020

Jason Malmstrom  
Assistant Inspector General for Audit  
U.S. Department of Justice  
Office of Inspector General  
950 Pennsylvania Avenue, NW  
Washington, DC 20530

Subject: Response to Draft System Review Report

Dear Mr. Malmstrom:

Thank you for the opportunity to comment on the draft results of your peer review of our office’s audit operations. Your report made the following recommendation:

To ensure compliance with GAS requirements, assess its current policies and procedures related to audit planning, documentation of evidence, supervision, and reporting to obtain a better understanding of the cause for the deficiency identified in this review, and update and train staff on applicable policies and procedures as necessary.

We concur with your recommendation and have implemented the following corrective actions:

- Initiated our standard operating procedure (SOP) project in May 2020. Initial SOPs include Assignment Documentation, Assignment Planning, Audit Risk, Fraud, Indexing and Referencing, and Reporting Process.

- Scheduled training on supervisory review of working papers in TeamMate+ for all supervisors and managers in September 2020.

- Updated our policy for obtaining and reporting the views of responsible auditee officials for audit reports with no findings.

- Initiated an in-depth review of the AIE division responsible for most of your identified deficiencies. To date we have:

  - Completed an internal quality assurance review (QAR) of The Chicago Horticultural Society Should Improve Its Financial Management System to Receive Federal Funds audit (“CHS audit”) and reposted the report with minor modifications.
o Started a QAR of The NPS Complied With the Terms of Three Contracts for the Grand Canyon River Logistics Program audit ("NPS audit") and plan to repost that report in July.

o Initiated QARs of the five other audits issued from October 1, 2018, through September 30, 2019, and all new audits issued from October 1, 2019, through December 31, 2020, by the same division.

o Completed an after action review (AAR) of the CHS audit in June 2020 and plan to perform an AAR of the NPS audit.

We also plan to provide concentrated indexing and referencing training for all AIE staff in the division.

Although we concur with your recommendation, we continue to disagree with your conclusion that the CHS report lacked sufficient and appropriate evidence to support some statements and conclusions. We pulled the CHS report from the public OIG website and completed a QAR of the CHS audit file. We determined that the audit team obtained sufficient and appropriate evidence to support all statements and conclusions in the report. We found, however, that the audit team’s analysis was not complete, which resulted in incorrect statements that required correction in the report.

We are committed to producing high-quality audits. We appreciate the professionalism your staff displayed during the review.

If you have any questions, please contact me at 202-208-5745.

Sincerely,

Kimberly E. McGovern
Assistant Inspector General for Audits, Inspections and Evaluations