



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

FEB 2 1998

The Honorable Valerie Lau  
Inspector General  
U. S. Department of Treasury  
1500 Pennsylvania Avenue, N.W.  
Room 2412 Main Treasury Building  
Washington, D.C. 20220

We have reviewed the system of quality control for the audit function of the Department of Treasury Office of Inspector General (OIG) in effect for the year ended September 30, 1997, and have issued our report thereon dated November 21, 1997. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the OIG's system of quality control and its compliance with that system. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate. As a result of our review, we have the following comments which were considered in determining our opinion set forth in our report dated November 21, 1997. This letter does not change that report.

**Finding 1. Staff Qualifications - The System for Assuring Continuing Professional Education Requirements Are Met Could Be Improved.**

The OIG does not have written policies and procedures nor a system for tracking and monitoring staff adherence to continuing professional education (CPE) requirements. *Government Auditing Standards (GAS)* establishes minimum CPE for auditors and states that the audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing professional education requirements. It further states that the organization should maintain documentation of the education and training completed.

In practice, Treasury OIG uses a sliding time to measure compliance with the requirement that each auditor take 80 hours of CPE every two years. This means that if an auditor works on an audit in 1996, he or she should have had 80 hours of CPE in 1994 and 1995. If the auditor then works on an audit in 1997 he or she should have 80 hours in 1995 and 1996. Treasury OIG has left it up to each office to decide how to implement the requirement to ensure compliance with the CPE requirements.

In three of the four offices reviewed, the Regional Inspector General for Audit or Director kept records showing the CPE taken by the staff. However, in one office it was left to the individual auditors to maintain documentation of their own training. We found that one auditor, of the five we reviewed in one office, did not meet the CPE requirements for the 95-96 cycle. Two of 24 auditors reviewed in another office did not meet the CPE requirements for the 95-96 cycle. All three of these auditors did meet the requirement for the 96-97 cycle.

We believe that Treasury OIG's system for ensuring compliance with the CPE requirements could be strengthened by developing: (1) a system for tracking and monitoring compliance with the CPE requirements, and (2) written policies and procedures formalizing the system.

**Recommendation** - We recommend that the OIG develop written policies and procedures for tracking and monitoring the continuing professional education requirements for all auditors. At a minimum, we recommend that such policies and procedures include the following:

- Specific identification of the CPE time frame;
- A system for reporting and monitoring of training completed;
- Assigning of responsibility for monitoring training completed; and
- Assigning of responsibility for maintaining documentation of training completed.

## **Finding 2. Quality Control - Independent Referencing Policy Should Be Clarified**

The OIG's policies and procedures require that draft audit reports and all but editorial changes from the draft to the final audit reports be independently referenced. We found that two of the three financial statement audits did not go through the independent referencing process. In one of six program audits reviewed, we found that changes from the draft to the final report were not independently referenced. Also, we could not tell whether the draft report that was independently referenced was the same version that was ultimately issued, because a copy of the issued draft was not included in the working papers. There were differences between the referenced version and the version that was sent to headquarters.

In the case of the financial statement audits, OIG officials indicated that these audits underwent a technical review by an independent party and were comfortable that this was sufficient to ensure the quality of the audits. While this may be the case, the OIG's policies and procedures do require that financial statements undergo *both* a technical review and independent referencing.

In the case of the program audit, the audit supervisor said that copies of issued draft reports are not always returned to the field office. The Regional Inspector General for Audit (RIGA) explained that the changes between the draft and the final were of a minor nature, were referenced elsewhere in the report and that it wasn't worth the expense of having the independent referencer come in or sending the working papers out for the relatively minor changes (because of the limited number of staff at the office, the independent referencer was from another office). We agreed with the RIGA's assessment, however, we believe that, since this was an exception to the OIG's policies and procedures, there should have been some documentation of this thought process in the working papers. Otherwise it appears to be an oversight in the referencing process.

**Recommendation** - We recommend that OIG management review the independent referencing policy to determine whether it should be revised to allow exceptions for the types of situations discussed above. If it is determined that the policy should allow for exceptions, the policy should specify: (1) under what circumstances exceptions can be made and who has the authority to make them, (2) what, if any, alternative quality control procedures should be performed, and (3) what documentation should be included in the audit working papers to support that a conscious decision was made to make an exception to the referencing policy. If it is determined that the policy should not allow for exceptions, management should communicate this determination to all audit managers and staff.

### **Finding 3. Various Aspects of Working Paper Documentation Could Be Improved**

As described below, we found several instances where various aspects of working paper documentation could have been better.

#### ***Documentation of Supervision and Supervisory Review***

In three audits, documentation of supervision did not demonstrate supervision throughout the audit. In these cases, the supervisory reviews of many of the working papers were dated well after the working papers were prepared and signed by the auditors. There was little or no other evidence of supervisory involvement during the fieldwork phase of the audits. In another case it was unclear who performed the review. In two cases the manager or supervisor cited the logistical issue of the work being performed in other locations and the cost/benefit of having the auditors come in solely so the working papers could be signed. Both indicated that appropriate supervision was provided throughout the audit. Based on the fact that the audits complied with standards and there were little or no changes based on the supervisory reviews, we have no reason to doubt that there was appropriate supervision throughout the audits. However, it was not clearly documented in the working papers.

Treasury OIG policy requires the RIGA or Office Director to review and approve all audit guides/programs and to review all draft and final reports. In one case there was no evidence that the RIGA/Director reviewed the draft or final reports. The reports were mounted on working papers which were dated after the issuance of the report. The audit manager explained that there was a yellow control sheet that accompanied the audit reports that would have been signed by all regional and

headquarters reviewers, but that this sheet does not come back to the region from headquarters. In two cases, in the same region, there was no evidence that the RIGA/Director approved the audit guide.

### ***Working Paper Indexing and Cross-Indexing***

According to paragraph 4.36 of the Government Auditing Standards, audits done in accordance with GAGAS are subject to review by other auditors and oversight officials. Paragraph 462.14 on page 4600-10 of the OIG's Policies and Procedures Manual require that working paper preparation for all financial statement audits follow the OIG established specific guidance and a working paper indexing scheme.

In two of the nine audits reviewed, we had trouble tracing information from the report to the supporting work papers. In one audit, for 18 of 35 references traced we couldn't find either support at the referenced working paper or the reference was to a summary working paper without cross-indices to detailed supporting working papers. Although the report was independently referenced, the referencer did not take exception in these cases. In the second audit, the working paper numbering, heading and organization made it hard for an independent party to follow them and determine the work completed for each step of the audit program. For this audit, the manager indicated that selected working papers were reorganized and certain sections pulled and relocated to other sections of the working papers after the working papers were cross referenced to the audit program. For these two audits there was no working paper documentation to explain the change in location from the original indexed and cross-indexed locations to the new working paper number/index and/or separate bundle locations.

In two audits, there was at least one instance of cross-indices referring to working paper bundles. The cross-indices should have referred to specific working papers.

### ***Additional Audit Procedures***

In one audit, the report language supporting several findings was referenced to a section of a record of discussion/record of physical inspection working paper which was clearly a photocopy of the report language. The audit manager explained that during the referencing process, when it was noted that several of the statements in the report were not supported by the record of discussion/physical walk-through working paper, he called the auditee official to verify that they were true. Upon obtaining the verification, he photocopied the statements and appended them to the record of discussion. However, there is no documentation, i.e., a separate record of discussion or an indication that this information was obtained at a later date. (It should be noted that the auditee concurred with these findings when responding to the draft.)

### **Recommendations**

We recommend that the OIG consider:

- ✓ ● Establishing specific procedures requiring working paper documentation of supervisory

involvement during audit fieldwork. If supervisory review and signing of the working papers are going to be delayed due to logistical or other reasons, the policy should require that any supervisory activity that is performed in the interim be documented by writing up discussions, keeping a log of contacts and/or through other means.

- Adding checklist items to the *Checklist for Performance Audits* for evidence of RIGA approval of audit guides and review of draft and final reports.
- Reemphasizing the need for adequate indexing and cross-indexing of the reports and working papers and documenting the work performed, including supplemental work. If selected working papers are reorganized and relocated to other sections of the working paper bundles after the audit program or report is indexed and referenced, the working papers should include an explanation of this change and the report may need to be re-indexed and re-referenced based on the significance of the changes that necessitated the working paper reorganization. The OIG also should determine whether additional guidance is needed.
- Strengthening procedures to ensure that final versions of documents signed in headquarters are maintained in the working papers along with evidence of required reviews.

Sincerely yours,



Thomas R. Bloom



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

FEB 26 1998

MEMORANDUM FOR REGIONAL INSPECTORS GENERAL FOR AUDIT  
DIRECTORS OF AUDIT

FROM: Dennis Schindel *Dennis Schindel*  
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General Audit Policy and  
Procedures

The recent peer review of the Treasury Office of Inspector General (OIG) by the Department of Education OIG identified issues for improvement in Staff Qualifications, Quality Control, Documentation (of Supervision and Supervisory Review), and Work Paper Indexing and Cross-Indexing. Several of the issues also surfaced during the internal quality reviews of program audits conducted at Western, Central, Northeastern and Capital Regions in 1996 and 1997.

We already have audit policies and procedures in the OIG Manual Section 4000 (revised June 11, 1997) which provide guidance for implementing government auditing standards relating to these issues. However, in response to the peer review report recommendations, we will be reviewing these policies and procedures to ensure they adequately address the issues. We will subsequently revise and update any policies/procedures as deemed necessary.

In the meantime, effective immediately, RIGAs and Directors of Audit are to discuss with the supervisors and audit managers on their staff the need to comply with our policies relating to documenting supervision and timely supervisory review in the workpapers, indexing and cross-indexing of workpapers.

Current OIG policy requires that the RIGA/Director review and approve all audit programs and all draft and final reports but do not require them to sign off that they completed these procedures. To document that this process is done, I am directing that the RIGA/Director sign the Audit Program, draft and final report to indicate approval and to provide evidence in the workpapers that these procedures are completed. The signed documents should be kept in the workpaper file.

Additionally, when the audit report which has been signed by all regional and/or headquarters reviewers, the audit manager should make sure that the control sheet, which evidences the regional and headquarters report review process, is included with the workpapers in the administrative file maintained for the audit.

If you have questions, please call me or Art Henshaw, Director, Audit Policy and Coordination, at 202-927-5400.

Mr. Steven A. McNamara  
Assistant Inspector General for Audit  
Office of Inspector General  
U. S. Department of Education  
600 Independence Avenue, S.W.  
Washington, D. C. 20202

Dear Mr. McNamara:

Thank you for providing me a copy of your draft report presenting the results of your external quality review of Treasury's Office of Inspector General, Office of Audit. As requested by your office on January 20, 1998, my response to the findings and recommendations for improvement contained in the letter of comments follow.

I would like, first, to compliment you on the professionalism of the auditors who performed this review. I would also like to say that I am very pleased that the report presents your opinion that we are complying with the applicable professional standards in the conduct of our audits and that our system of quality control is in accordance with the standards established by the President's Council on Integrity and Efficiency.

Regarding your first recommendation that we develop written policies and procedures to track and monitor our auditors' compliance with the continuing professional education requirements, I would like to point out that there is a requirement included in our Audit Policy Manual which requires supervisors to ensure that "all staff assigned have...met the continuing education requirements (GAS 3.3, 3.6)". In addition, each of our supervisors are required to ensure their staffs meet these requirements as part of the annual process for developing Individual Development and Employee Performance Plans. We do agree that a better process for centralizing the information necessary for tracking employee training is needed and we will require this as part of our new Management Information System - which we are currently implementing.

We agree with your observations and the corresponding recommendation regarding our policies applicable to the indexing and referencing of our reports and, by March 31, 1998, we will review those to ensure they are adequate to meet our needs. We will revise and update any such policies as deemed necessary after our review.

Your third group of recommendations concerning documentation of working papers relate to documentation of actions already required by our handbook or to the need for copies to be returned to the originator for inclusion in the permanent audit files. On balance, we feel

that these documentation problems are not widespread and that our workpaper preparation, documentation and supervisory review processes are carried out effectively.

In any event, because the issues of documentation and timely supervisory review were identified through our internal control process and were discussed as part of our internal quality assurance reviews during the last year, and were identified in your review, we will issue a bulletin, by February 28, 1998, to all supervisors, reminding them of the need to comply with these requirements and we will require that documents which should be included with the administrative files maintained for audits, be returned from our headquarters office to the office responsible for the audit.

Sincerely,

Dennis Schindel  
Assistant Inspector General for Audit