

# Audit Committee News

May 2006

## **Principal Representatives:**

John P. Higgins, Jr., IG/ED, Chairman

Greg Friedman, IG/DOE

Phyllis Fong, IG/USDA

Gordon Heddell, IG/Labor

Patrick O'Carroll, IG/SSA

Harold Damelin, IG/Treasury

Thomas Gimble, Acting IG/DOD

## **ECIE Representatives:**

Jane Altenhofen, IG/NLRB

Ken Konz, IG/CPB

## **FAEC Council:**

Helen Lew, AIGA/ED

## **Highlights**

- A Year of Accomplishments
- Ongoing Initiatives
- Special Thank You

If you have any questions, please  
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## **Highlights From a Year of Accomplishments**

### **External Peer Reviews**

To ensure that the federal IG community complies with the *Government Auditing Standards* requirement to undergo an external peer review, the Audit Committee prepared the schedule for 2006-2007 external peer review cycle. The effort required significant coordination to prevent conflicts of interest. In April 2005, the PCIE/ECIE issued its *Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General*. The guide is effective for the 2006-2007 cycle.

### **Peer Review Training**

On Thursday, April 13, 2006, the Federal Audit Executive Council (FAEC) hosted Peer Review Guide Training. The training was intended to help to prepare Federal auditors to use the PCIE's April 2005 *Guide for Conducting External Peer Reviews of the Audit Operations of Office of Inspector General*. Due to popular demand, we will offer another class this summer.

### **GAO/PCIE Financial Statement Roundtable**

In March 2006, GAO and the PCIE hosted its 3<sup>rd</sup> annual Financial Statement Roundtable. The roundtable was open to all financial managers, federal auditors, and independent accountants. More than 200 professionals attended the event. Speakers from OMB, GAO, the IG and CFO communities, FASAB, and DOJ discussed topics pertinent to federal financial statement audits, including implementing the revised OMB Circular A-123, new accounting and auditing standards, legal claims, and the Anti-deficiency Act.

### **Symposium on Federal Employees' Compensation Act (FECA)**

In March 2006, the Departments of Labor and Commerce OIGs sponsored a half-day symposium – *Federal Employees' Compensation Act (FECA) Program: Building a Coordinated Approach to FECA-Related Work*. The Symposium proposed to the OIG community a "protocol" for conducting FECA audits, evaluations, and investigations.

### **A-123 Implementation Guide**

With the passage of the Sarbanes-Oxley Act, more attention has been focused on strengthening internal control. Representatives from the OIG community worked with OMB and the CFO Council to revise Circular A-123, *Management's Responsibility for Internal Control*, develop a practical guide for implementing the revised circular, and provide answers to frequently asked questions. These efforts have been ongoing, with the guide being issued in July 2005 and frequently asked questions being issued most recently in April 2006.

# Audit Committee News

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### **Cost-Benefit Study**

In September 2005, the PCIE and the CFO Council issued a joint study on the potential costs and benefits of requiring the CFO Act agencies to obtain an opinion on internal control over financial reporting. The joint study estimates that for the 24 CFO Act agencies it would cost approximately \$140 million to render an opinion on internal control. About 60 percent of these costs would be to audit the Department of Defense. Given these significant costs, the study recommended waiting until more data on the benefits is available from the private sector. As required by law, GAO is currently analyzing the information in the report and will issue its report to Congress.

### **Federal Audit Clearinghouse**

The Audit Committee worked with the Census Bureau to address a budget cut, which reduced funding for the Federal Audit Clearinghouse from \$2.9 million to \$2.1 million. A joint working group of IGs and CFOs, as well as OMB, provided a short-term solution that identified funds to hire additional staff to process the audit reports for the remainder of FY 2005. Another working group of CFOs was convened to address long-term issues.

### **NAPA Project on Strengthening Financial Management**

The *House Government Reform Subcommittee on Government Efficiency and Financial Management*, chaired by Congressman Todd Platts, asked the National Academy of Public Administration (NAPA) to assist them in strengthening financial management in the Federal government. Their work could lead to consolidating statutes and circulars as well as reforms that address systems, accounting, and organizational issues. In April, representatives from the OIG community met with NAPA to share their views. These representatives will continue to provide assistance and respond to requests as needed.

## **Ongoing Initiatives**

### **OMB Audit Bulletin**

In December 2005, the FAEC Audit and Financial Statement Committees met with OMB to identify potential revisions to OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. The group separated the potential revisions into short and long-term projects. The short-term projects will be addressed over the next few months and the revised bulletin should be available for the FY 2006 audit cycle. The topics that will be addressed include: internal control, management and legal representation letters, SAS 70 reports, agreed-upon procedures restatements, and other miscellaneous issues. A select group has drafted the respective sections and is waiting for feedback from OMB before a draft can be issued to the audit community for comment.

### **2006-2007 Peer Review Cycle**

The FAEC Audit Committee will be responsible for addressing issues that may arise during the 2006-2007 external peer review process. The FAEC Audit Committee will serve as the first point for providing implementation guidance and resolving disputes.

### **Government Auditing Standards**

The Advisory Council on Government Auditing Standards will continue its efforts to revise the *Government Auditing Standards*. The proposed changes address audit quality assurance, non-audit services, internal control deficiencies, financial statement restatements, audit documentation, appropriateness and sufficiency of evidence in a performance audit, and professional requirements. GAO expects to issue an exposure draft in May 2006. The comment period will be open for 60 days. The final standards will be issued in fall 2006, effective for audits beginning in January 2007.

# Audit Committee News

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### **FISMA Framework**

The FAEC IT Committee is drafting a Federal Information Security Management Act (FISMA) framework to assist OIGs in evaluating agencies' IT security plans. The document, which is a product of a number of different OIGs' efforts, will provide guidance to OIGs as they perform FISMA reviews. The FAEC IT Committee plans to share the draft with the FAEC this summer.

### **National Single Audit Sampling Project**

The PCIE/ECIE initiated the National Single Audit Sampling Project to accurately assess the quality of audits performed under the Single Audit Act. The project will provide a baseline for monitoring the quality of Single Audits in the future and may be used to develop changes to improve the audit guidance. Federal, state and seven public accounting firms conducted quality control reviews (QCRs) of 208 audits that were statistically selected from more than 38,000 Single Audits submitted to the Federal Clearinghouse during a one-year period. The QCR results are currently being reviewed for consistency and the results will be compiled over the summer. A final report is expected by the end of the year.

### **FAEC Projects**

After a period of vacancies in the FAEC leadership and many of the committees, the Council is fully staffed. The subcommittees have developed a full agenda for the upcoming fiscal year. We will keep you informed as their work progresses.

## **Special Thank You**

### **Audit Committee Members**

A special thank you to our former Audit Committee members, Pat O'Carroll, SSA IG, and Ken Donohue, HUD IG, for their faithfulness in serving the federal audit community. Their participation on the Audit Committee was invaluable. Special recognition also goes to Tom Gimble, DOD Acting IG, for agreeing to serve in the upcoming year.

### **Federal Audit Executive Council**

The Federal Audit Executive Council has also been invaluable. Special thanks to Alexis Stefani, DOC AIGA, for chairing the Council up to July 2005 and to Helen Lew, ED AIGA, and Bill Maharay, DOE Deputy IG for Audit, for graciously agreeing to serve as the current chair and co-chair.

### **OIG Community**

The OIG community's support for and participation in the various Audit Committee projects during the last year has been integral to the success of these projects. Thank you to everyone who has participated in these events and we look forward to your continued support in the coming year.