



UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20555

July 5, 1994

OFFICE OF THE  
INSPECTOR GENERAL

Robert P. Cesca  
Deputy Inspector General  
Department of Treasury  
Room 2412, Main Treasury Building  
1500 Pennsylvania Ave, N.W.  
Washington, DC 20220

SUBJECT: REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW OF THE  
DEPARTMENT OF TREASURY OFFICE OF INSPECTOR GENERAL

Dear Mr. Cesca:

We are pleased to provide you with our final report on the President's Council on Integrity and Efficiency External Quality Control Review of the Department of Treasury Office of Inspector General. Your response to the June 3, 1994, draft indicates that you agree with all of the recommendations and have actions underway that, once completed, should satisfy all of our concerns. Your response is included in its entirety in the final report as Enclosure I.

We appreciate the Office of Inspector General's cooperation and support during the peer review process.

Sincerely,

*David C. Williams*  
David C. Williams  
Inspector General  
U.S. Nuclear Regulatory  
Commission

*Patrick E. McFarland*  
Patrick E. McFarland  
Inspector General  
Office of Personnel Management

Enclosures:  
As stated



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**SUBJECT: REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW OF THE  
DEPARTMENT OF TREASURY OFFICE OF INSPECTOR GENERAL**

Dear Mr. Cesca:

In accordance with the January 25, 1994, Memorandum of Understanding between the U.S. Department of the Treasury, the U.S. General Services Administration, the U.S. Nuclear Regulatory Commission (NRC), and the U.S. Office of Personnel Management (OPM), NRC and OPM have conducted an external quality control review of the U.S. Department of the Treasury Office of Inspector General's (OIG) audit operations. This review was conducted in accordance with the President's Council on Integrity and Efficiency's (PCIE) April 1992 "Guide for Conducting External Quality Control Reviews of the Audit Operations of Offices of Inspector General."

Public Law 100-504, the Inspector General Act Amendments of 1988, established a statutory OIG within the U.S. Department of the Treasury, effective April 16, 1989. The Amendments consolidated Treasury's existing OIG and those portions of the Offices of Internal Affairs in the U.S. Bureau of Alcohol, Tobacco, and Firearms (ATF) and the U.S. Customs Service and the Office of Inspection in the U.S. Secret Service that were engaged in audit activities. The Amendments provided that the OIG would initiate, conduct, and supervise internal audits and internal investigations within Treasury. They also provided that the OIG would oversee internal investigations made by the Offices of Internal Affairs and Inspection within the Bureaus of ATF, Customs, and Secret Service and internal audits and internal investigations of the Inspection Service of the Internal Revenue Service (IRS).

The objectives of the peer review were to determine if the OIG has an internal quality control system that is adequate, in place, and operating effectively; follows the General Accounting Office's (GAO) "Government Auditing Standards" (GAS); and follows its own established policies and procedures. The peer review also followed up on implementation of recommendations from the 1991 peer review.

The field work was conducted from April 4, 1994 through April 22, 1994, by a peer review team of five auditors from NRC and OPM (Enclosure II). The team conducted its review at Treasury OIG offices in Washington, D.C., the Western Region Office in San Francisco, California, and the Southern Region Office in Houston, Texas.

The team did not review IRS policies and procedures or audits performed by the IRS audit staff, and therefore, reached no conclusions regarding the IRS audit operations. In a memorandum to the IRS Commissioner dated August 14, 1991, the Inspector General recommended that the IRS arrange for a peer review by an organization that is comparable to the IRS' internal audit function. Under the advisement of the GAO's Assistant Comptroller General, Accounting and Financial Management Division, IRS relied upon a series of 1990 and 1991 Office of Quality Assurance (OQA) oversight reports to provide adequate review coverage. IRS is again seeking the guidance of the GAO regarding this year's peer review. To be in compliance with standards, a review should be conducted by January 1, 1995.

The team reviewed OIG policies and procedures and internal quality assurance functions, including recent OQA reviews. The OIG's semiannual reports for the periods ended September 30, 1993 and March 31, 1993 listed 253 audits, 122 of which were IRS audits. We selected 20 audits from the remaining 131 non-IRS audits for review. Audits selected were from several bureaus and included a variety of types and sizes of audits performed.

In addition to reviewing the audit reports and supporting working paper files, the team members interviewed audit officials at each site and discussed observations with them during the review. Professional judgment was used in determining compliance with policies, procedures, and applicable standards.

The review was more limited in scope than an audit performed in accordance with generally accepted Government auditing standards. Because it was based on a judgmental sample of audits performed, our review would not necessarily disclose all weaknesses or lack of compliance with standards. Also, because we reviewed work reported as of September 30, 1993, our review may not have recognized all improvements in operations made since that time. We are confident, however, that our work was sufficient to offer an opinion on the OIG's general compliance with standards.

### RESULTS OF REVIEW

Based on our review, we concluded that the OIG has an internal quality control system that is adequate, in place, and operating effectively. OIG materially complied with GAS and its own established policies and procedures for the individual audits reviewed.

In 1990, the Treasury OIG established an Office of the Assistant Inspector General for Oversight and Quality Assurance to be responsible for assessing the quality of OIG work. Within this office, the Office of Oversight oversees internal investigations made by the Offices of Internal Affairs and Inspection in the Bureau of ATF, Customs Service, Secret Service and the internal audits and investigations of the IRS. The Office of Quality Assurance evaluates audit and investigative performance of the OIG, including the region and field offices. OQA is also responsible for identifying and recommending policy development, enhancement, or change to improve the effectiveness or efficiency of administrative, audit or investigative entities with OIG.

To date, the OQA has conducted 14 Quality Assurance Reviews (QAR) of OIG audit activity. We reviewed QAR reports and two sets of QAR working papers. Based on this review, we concluded that an internal quality control system is in place and operating effectively to provide reasonable assurance that the OIG Office of Audit is following GAS and its own established policies and procedures. OQA uses PCIE guidelines in performing their reviews.

The OIG is in the process of revising several OIG manual chapters. It is our opinion that when completed these chapters will provide comprehensive guidance to the staff on conducting audits that meet or exceed GAS requirements.

For the individual audits reviewed, the team concluded that the OIG materially complied with GAS and internal policies and procedures. Auditors' judgments and conclusions were generally supported by sufficient, competent, and relevant evidence. The audit reports were clear and objective and appeared to accurately present the facts. Audit progress was tracked by audit status reports produced by the OIG Management Information System.

### CORRECTIVE ACTIONS

The 1991 peer review recommended 20 opportunities for improvement. As a result of responding to these recommendations, OIG has made significant improvements. However, three of the 1991 recommendations have not been fully implemented. Some of these issues are similar to recommendations made by the OQA in recent reviews and represent an ongoing concern. We are therefore reporting them in order to make a complete record of the peer review and the potential improvements noted by the team. Based on our 1994 review, we believe that OIG should consider improvements in the following areas to further strengthen its system of quality control.

#### Independence

GAS requires the audit organization to be organizationally independent in all matters pertaining to audit work. Our examination of the OIG's implementation of this standard revealed a concern pertaining to the organizational independence of the OIG legal counsel.

Legal counsel is provided to the OIG under an informal arrangement with the Treasury's Office of the General Counsel (OGC). An OGC attorney is specifically designated to provide such counsel and has been providing this service for the past 8 years.

As a result of a 1991 peer review recommendation, the Inspector General forwarded concerns regarding legal counsel's independence to the Deputy Secretary. In January 1992, the Deputy Secretary decided to "leave things as they are," but issued a specific injunction to the General Counsel to insure that the appointment of the Chief Counsel for the Inspector General only be done with the concurrence of the Inspector General.

Although the attorney's salary and position are charged to the OIG, the attorney is formally assigned to OGC, and has not been officially detailed to the OIG. Furthermore, OGC prepares the attorney's performance appraisal with input from OIG. There is no Memorandum of Understanding between OIG and OGC to define the responsibilities of the legal counsel or procedures for handling conflicting opinions between the legal counsel and OGC. We believe that the absence of a fully defined relationship between OIG and OGC regarding the status and responsibilities of the attorney, at a minimum, presents the appearance of an impairment to organizational independence.

Optimally, legal counsel should be a member of the OIG staff to avoid even the appearance of a conflict of interest or an impairment to organizational independence. If this is not possible, the OIG and OGC should formalize the arrangement with a Memorandum of Understanding.

#### Supervision

GAS requires that supervisory reviews of audit work should be timely and should be documented in the working papers. Our examination of OIG's implementation of this standard revealed that supervisory reviews are not always timely.

OIG has a policy providing for the timely review of working papers (10 days), and many working papers in our sample complied with that policy. However, some of the working papers in our sample showed evidence of being reviewed months, even up to one year, after preparation.

As a measure of quality control, OIG should take steps to ensure that its policy for the timely supervisory review of working papers is fully implemented.

#### Evidence

GAS requires sufficient, competent and relevant evidence to support audit findings. Independent referencing is an important quality control step to ensure that audit evidence is

presented clearly and accurately within the audit report. OIG policy requires that all drafts be referenced and that any changes be resubmitted for referencing. In our review of working papers, we found that all drafts had been referenced. However, we found instances where changes to the final report had not been completely referenced. Specifically, we found:

- (1) An instance where detailed changes to the draft had been made and not referenced,
- (2) Instances where statements concerning the effect of management comment on the report had not been referenced, and
- (3) Instances where the final report had not been referenced and did not indicate that changes had not been made since the referenced draft.

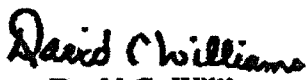
To strengthen quality control, OIG should ensure that changes to final reports are referenced.


#### AGENCY COMMENTS

On June 21, 1994, the Deputy Inspector General, Department of Treasury, provided comments on our draft report. Enclosure I contains a copy of the Deputy Inspector General's comments.

The Deputy Inspector General agreed with our recommendations and stated that actions to implement them were underway.

Sincerely,

  
David C. Williams  
Inspector General  
U.S. Nuclear Regulatory  
Commission

  
Patrick E. McFarland  
Inspector General  
Office of Personnel Management

Enclosures:  
As stated

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## AGENCY COMMENTS ON DRAFT REPORT

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 21, 1994



Mr. Thomas J. Barchi  
Assistant Inspector General  
for Audits  
Office of the Inspector General  
U.S. Nuclear Regulatory Commission  
Washington, DC 20555

Dear Mr. Barchi:

Thank you for offering us the opportunity to comment on your draft report dealing with the results of the external quality control review of the Department of the Treasury Office of Inspector General. As requested in your June 3, 1994, transmittal letter, we have reviewed the draft report and offer the following comments on your findings and recommendations.

First, I would like to commend you and the joint staff of auditors from the Nuclear Regulatory Commission and the Office of Personnel Management for their highly professional manner in conducting this review and for providing us a timely response. Overall, I am very pleased with your conclusion that our office is operating an effective internal control system and is materially complying with the Government Auditing Standards and our own established policies and procedures.

However, as you pointed out in your draft report, some opportunities for improvement are present in the areas of independence, supervision and evidence.

With respect to the organizational independence of the Office of Counsel to the Inspector General, you correctly point out that there is no Memorandum of Understanding between the Office of Inspector General and the Office of General Counsel defining Counsel's responsibilities and operating procedures.

We understand that some could perceive the lack of a Memorandum of Understanding to present an apparent impairment to organizational independence. Accordingly, we will revisit with the Office of General Counsel the issue of formalizing our arrangement.

The draft report also recommended that we take steps to ensure full implementation of our policy for timely review of working papers. We concur with your recommendation.

We are pleased that the external review team noted during the exit conference that it had seen a marked improvement in the timeliness of our supervisory reviews since the 1991 external review. In fact, the team indicated that our new standard of 10 days for reviewing working papers was ambitious and they were surprised that we were able to comply to the degree that we have. Nevertheless, we agree to further monitor performance in this area to ensure no significant lapses occur.

An Assistant Inspector General for Audit staff memorandum will be issued by June 30, 1994, directing all Regional Inspectors General for Audit to ensure that working papers are reviewed timely. The Regional Inspectors General for Audit will be asked to monitor progress in this area and to comment specifically on timeliness of supervisory reviews in quarterly reports to the Deputy Assistant Inspector General for Audit Operations.

Lastly, the report recommended that the Office of Inspector General ensure that changes to final reports are referenced. We concur with your recommendation. The Assistant Inspector General for Audit will reinforce our existing policy that requires all changes to draft reports be referenced. A staff memorandum will be issued by June 30, 1994, requiring that the final report placed in the permanent working paper file be signed and annotated by the report referencer with regard to any changes.

Sincerely,

  
Robert P. Cesca  
Deputy Inspector General



**MAJOR CONTRIBUTORS TO THIS REPORT**

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Judith L. Leonhardt, Auditor, U.S. NRC

Austin Groom, Auditor, U.S. OPM

Gary Jacobs, Auditor, U.S. OPM

Joyce Price, Auditor, U.S. OPM