

U.S. Department of Labor

Office of Inspector General—Office of Audit

**BUREAU OF INTERNATIONAL
LABOR AFFAIRS**



ILAB COULD FURTHER IMPROVE OVERSIGHT OF ATTESTATION ENGAGEMENTS

**Date: March 31, 2009
Report Number: 05-09-004-01-070**

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number: 05-09-004-01-070 to the Acting Deputy Under Secretary for International Labor Affairs

WHY READ THE REPORT

The Bureau of International Labor Affairs (ILAB) carries out the international responsibilities of the Department of Labor (DOL) under the direction of the Deputy Under Secretary for International Labor Affairs. Since 1995, Congress has appropriated more than \$660 million to ILAB's Office of Child Labor, Forced Labor, and Human Trafficking (OCFT) to support international child labor research, raising awareness, and technical assistance efforts. Currently, OCFT funds more than 120 child labor technical assistance projects around the world through 1) the International Labor Organization's International Program on the Elimination of Child Labor, 2) DOL's Child Labor Education Initiative (EI), and 3) other cooperative agreements and technical assistance contracts.

Each year the Office of Inspector General (OIG) reports on major management challenges facing DOL. In these annual reports, the OIG has repeatedly raised concerns about the adequacy of single audits to meet the audit coverage and financial management requirements of DOL grantor agencies.

To address these concerns, ILAB has entered into a Blanket Purchase Agreement (BPA) with an Independent Public Accountant (IPA) to conduct attestation engagements of selected EI projects. These engagements determine whether the grantees are complying with applicable financial regulations and accurately measuring program performance.

WHY OIG CONDUCTED THE AUDIT

Since establishing the BPA, ILAB has obligated \$3 million for the IPA to perform attestation engagements. We reviewed ILAB's process of monitoring and assuring the quality of the IPA's work.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response go to:

<http://www.oig.dol.gov/public/reports/oa/2009/05-09-004-01-070.pdf>

March 2009

ILAB Could Further Improve Oversight of Attestation Engagements

WHAT OIG FOUND

The OIG found that ILAB did not (a) incorporate requirements needed to meet its quality assurance policies and procedures in the IPA's contract; (b) systematically conduct and document reviews of IPA attest documentation; or (c) require the IPA to submit external peer review reports. These weaknesses were partially offset by compensating controls which included (a) a segregation of duties between monitoring staff and program staff, and (b) ILAB's involvement in the planning and report writing stages of each engagement.

In reviewing a sample of attest documentation prepared by the IPA in support of selected attestation engagements, we found (a) one report finding that was not supported by information contained in the attest documentation, and (b) multiple attest documents that had no evidence of review by an IPA supervisor.

Improved monitoring by ILAB would reduce the risk that these deficiencies could occur without being timely detected and corrected.

WHAT OIG RECOMMENDED

The OIG recommended that ILAB:

- (1) Incorporate requirements needed to meet the policies and procedures related to its monitoring of the IPA's work in the BPA.
- (2) Require OCFT to complete and document an appropriate review of IPA attest documentation.
- (3) Develop and implement a policy requiring the use of external peer review reports in the selection and ongoing monitoring of an IPA.

ILAB concurred with our recommendations and stated it has initiated or planned several corrective actions.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 31, 2009

Assistant Inspector General's Report

Ms. Marcia Eugenio
Acting Deputy Under Secretary
for International Labor Affairs
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Since fiscal year (FY) 2004, the Bureau of International Labor Affairs (ILAB) has obligated \$3 million for an Independent Public Accounting Firm (IPA) to conduct attestation engagements of cooperative agreements awarded through the Child Labor Education Initiative (EI). ILAB requested that the Office of Inspector General (OIG) review whether the IPA's work met applicable Government Auditing Standards (GAS). Since overseeing the IPA's work is ILAB's responsibility, we agreed to review ILAB's process of monitoring and assuring the quality of the IPA's work.

ILAB's Office of Child Labor, Forced Labor and Human Trafficking (OCFT), funds technical assistance projects throughout the world, including EI. This program aims to eliminate child labor through programs that improve access to basic education in international areas with a high rate of abusive and exploitative child labor. In FYs 2004 through 2008, OCFT awarded 30 cooperative agreements totaling \$134,269,715 for the EI program through a competitive bidding process.

Within its oversight role, ILAB has entered into a Blanket Purchase Agreement (BPA) with an IPA to conduct attestation engagements¹ of selected EI projects. These engagements determine whether the cooperative agreement recipients are complying with applicable financial regulations and accurately measuring program performance. Under terms of the BPA, these engagements and the resulting reports must comply with GAS.

¹ Attestation engagements concern examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. GAO-03-673G *Government Auditing Standards*

We conducted an audit to determine the following:

Were monitoring procedures sufficiently performed to determine if attestation engagements complied with Government Auditing Standards?

We assessed ILAB's monitoring procedures, controls, and related documentation for attestation engagements conducted by its IPA from FYs 2004 through 2008.

To accomplish our audit objective, we reviewed applicable GAS relating to attestation engagements. We interviewed ILAB officials responsible for the monitoring function and reviewed available documentation to assess ILAB's compliance with its procedures.

We reviewed ILAB's most recent Request for Proposal to determine if it included elements that would assist in the selection of a qualified IPA to conduct attestation engagements. We also reviewed the BPA between ILAB and the selected IPA to determine if it included the elements needed to assist the IPA in determining accuracy and reliability of grantees' financial and performance data. We reviewed work performed by the IPA to determine its compliance with the BPA.

We randomly selected a sample of 12 attestation engagements from a population of 25 attestation reports issued during our audit period. For each selected report, we reviewed the associated attest documentation prepared by the IPA, and documented evidence of ILAB's monitoring to determine if the attestations were conducted in accordance with applicable standards and ILAB requirements.

RESULTS IN BRIEF

While ILAB's monitoring procedures and activities provided assurance that attestation engagements conducted by the IPA are meeting GAS, improvements could increase that assurance. Specifically, ILAB should: (a) incorporate into the BPA requirements needed to meet the policies and procedures related to its review of the quality of the IPA's work; (b) expand and document its reviews of IPA attest documentation; and (c) use external peer review reports in selecting and monitoring the IPA.

In responding to our draft audit report, ILAB generally concurred with our findings and recommendations, but stated that it believed Finding #1 did not clearly or precisely present the nature of the issue. ILAB's response also emphasized the proactive nature of its efforts to assure the quality of the IPA's work, and included a suggestion that the audit report should include a finding regarding the inability of the grant officer in the Department of Labor's (DOL) Office of the Assistant Secretary for Administration and Management (OASAM) to provide contract and audit resolution documentation requested by the OIG auditors.

In response to ILAB’s concerns about the clarity of Finding #1, we revised the wording of the finding and the related recommendation (#1). ILAB must include in the IPA’s contract those tasks that the IPA is required to complete to allow ILAB to perform its prescribed quality assurance tasks.

This report does not contain any recommendation to OASAM because our audit examined ILAB’s monitoring procedures. We did not perform audit tasks designed to evaluate OASAM’s functions.

RESULTS AND FINDINGS

Objective - Were Monitoring Procedures Sufficiently Performed to Determine if Attestation Engagements Complied with Government Auditing Standards?

While ILAB performed monitoring procedures to provide assurance that the attestation engagements of the EI projects were conducted in compliance with applicable GAS, improvements could increase that assurance.

ILAB should: (a) incorporate the policies and procedures related to requirements needed to meet the monitoring of the IPA’s work in the BPA; (b) expand and document its reviews of IPA attest documentation; and (c) use external peer review reports in selecting and monitoring the IPA.

Finding 1 - ILAB should incorporate requirements needed to meet its quality assurance policies and procedures in the IPA’s contract.

IPA contracts did not include -- specifically or by reference -- requirements of ILAB’s quality assurance policies and procedures. For example, to facilitate ILAB’s determination that audit findings were adequately supported, its quality assurance procedures called for the IPA to provide a copy of each draft examination report that had been cross-referenced² to the audit attest documentation. Specifically, ICLP’s Staff Operations Manual contains a “Check Sheet for Review of Examination Reports on Attestation Engagements” (Appendix 6.4). Item 8 in this check sheet states “Did the working papers include adequate documentation to support the findings presented in the examination report...?” The accompanying “Instructions for Preparation of Examination Report Check Sheet” state “The auditor’s working papers should include a copy of the draft examination report cross-referenced to the working papers to facilitate the review.” However, a requirement to prepare a cross-referenced report was not contained in the IPA’s contract.

As a result, the IPA was unaware of the requirement and did not prepare or provide to ILAB a cross-referenced draft report on any of the engagements in our audit sample.

² A cross-referenced draft report identifies the specific documentation used to support information contained in the report.

ILAB staff had not noted the absence of a cross-referenced draft report because they had not regularly reviewed the IPA's attest documentation (see Finding 2).

Contracting documents must clearly and fully define required tasks to assure the contractor's complete performance at the agreed-upon price. The omission of quality assurance requirements from the contract may prevent ILAB from obtaining needed services, or result in an additional, unexpected contract cost. In this specific example, the absence of a cross-referenced draft report could prohibit ILAB from verifying that reports were properly supported. At a minimum, it could increase the time and effort needed by ILAB to complete its quality assurance procedures.

In responding to our draft audit report, ILAB stated that it will incorporate in future solicitations and contracts a summary of key policies and procedures related to its monitoring of the IPA's work. However, we believe that, rather than including its policies and procedures in the IPA contract, the contract should define the tasks that the IPA must complete that will allow ILAB to perform its quality assurance procedures.

Finding 2 - ILAB should expand and document its reviews of IPA attest documentation.

Although ILAB had well-defined quality assurance policies and procedures, it did not comply with its policy to review the IPA's attest documentation to determine that all findings were identified and reported; conclusions were adequately supported; and the work was properly supervised.

GAS 6.21 requires auditors to prepare documentation sufficient to enable an experienced auditor to understand the procedures performed, the evidence obtained, and the conclusions reached. GAS 6.22 also requires evidence of supervisory review of the work performed.

ILAB has initiated a collection of controls to assist with ensuring that the attestation engagements conducted by the IPA are meeting GAS. These controls include (a) developing policies and procedures for monitoring and reviewing the IPA's work; (b) establishing segregation of duties between monitoring staff and program staff; and (c) maintaining close involvement in the planning and report writing stages of each engagement. One specific control procedure contained in OCFT's operations manual states that the Contracting Officer's Technical Representative and/or Grant Officer Technical Representative/project manager should review the auditors' attest documentation related to specific findings³. While ILAB officials stated that they examined supporting documentation for selected report findings, we found no record to substantiate this assertion.

³ Findings for which attest documentation should be reviewed include those that (a) involve significant questioned costs, (b) are unclear, (c) are inconsistent with OCFT's information about a grantee or project, and (d) were the subject of disagreement between the grantee staff and the auditors at the project level exit conference.

ILAB officials stated that, despite the content of their operations manual, it was never their intention to require a review of attest documentation supporting the findings in every IPA report. They believed that the volume of attest documentation and ILAB's limited resources made this impractical. However, without evidence that ILAB performed a systematic review of the IPA's attest documentation, ILAB was not able to demonstrate that the IPA's work was complete, accurate, or fully met professional standards.

Our review of attest documentation from a sample of the IPA's attestation engagements identified deficiencies in accuracy and supervisory oversight which ILAB might have detected if it had performed a systematic review of the IPA's attest documentation. For example:

- One of 12 attestation engagements in our audit sample contained a finding that was not adequately supported in the IPA's attest documentation. The report identified payments of \$7,117 as disallowable under terms of the cooperative agreement. However, the related attest documentation supported disallowing payments of only \$3,607. The IPA was unable to explain the discrepancy. Thus, the report finding was overstated by \$3,510.
- Four of the 12 attestation engagements in our audit sample contained attest documentation (ranging from 4 to 17 documents) that had no evidence of supervisory review. Some of those attest documents were used to support findings reported in the IPA's report to ILAB.

Defining and implementing a systematic review of the IPA attest documentation would provide ILAB the assurance that the IPA's reports accurately contain all appropriate findings and that the underlying work meets professional standards.

In responding to our draft audit report, ILAB stated that it will revise its Operations Manual to define more precisely the extent of ILAB's review of the IPA's working papers and the circumstances that warrant such a review. When completed, this action will address our recommendation.

Finding 3 - ILAB should require the IPA to submit external peer review reports.

ILAB did not require IPAs to submit an external peer review report in responding to the Request for Proposal. Additionally, the executed contract did not require the selected IPA to submit updated peer review reports during the life of the contract.

GAS states that external peer review reports and letters of comment may be relevant to decisions on procuring audit or attestation engagements. Therefore, audit organizations seeking to enter into a contract to perform an audit or attestation engagement in accordance with GAS should provide the audit organization's most recent peer review

report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract.

ILAB staff indicated that the IPA's peer review report(s) were not a criterion in the agency's technical evaluation process prior to making recommendation to the Contracting Officer for selection of attestation services.

The external peer review reports (2003 and 2006) for the IPA selected by ILAB stated that its work met GAS. However, a related letter of comment, that accompanied the 2006 external peer review report, noted some deficiencies. These included incidents in which: (a) report presentation did not meet current professional standards; (b) fraud risk was not documented; (c) reasons for not confirming certain receivables was not explained; (d) documents and matters examined or considered to reach certain audit conclusions were not identified; and (e) cross referencing of attest documentation was incomplete.

Information contained in an IPA's external peer review and related letters of comment would reduce the risk that ILAB would enter into a contract with an unqualified firm. It would also provide ILAB with information that could be used in focusing its own monitoring efforts on previously identified deficiencies.

In responding to our draft audit report, ILAB stated that it will revise future solicitations to require (a) the application package to include an IPA's most recent peer review report and related letter of comment, and (b) the selected IPA contractor to provide ILAB with a copy of each external peer review report and related letter of comment that the IPA receives during the course of the contract. When completed, this action will address our recommendation.

Recommendations

We recommend that ILAB:

1. Incorporate requirements needed to meet the policies and procedures related to its monitoring of the IPA's work in the BPA.
2. Expand and document its reviews of IPA attest documentation.
3. Request external peer review reports in future IPA solicitations and consider them in the selection and ongoing monitoring of an IPA.



Elliot P. Lewis

Appendices

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Background

ILAB carries out the international responsibilities of DOL under the direction of the Deputy Undersecretary for International Labor Affairs. ILAB conducts research on and formulates international economic, trade, immigration, and labor policies in collaboration with other U.S. Government agencies. ILAB also provides international technical assistance in support of U.S. foreign labor policy objectives. ILAB works with other government agencies to create an improved international economic system in which all workers can achieve greater economic security, and share in the benefits of increased international trade. ILAB also helps create safer and healthier workplaces where the basic rights of workers and children are respected and protected.

ILAB's OCFT funds more than 120 child labor technical assistance projects around the world through 1) the International Labor Organization's International Program on the Elimination of Child Labor (IPEC), 2) DOL's Child Labor Education Initiative, and 3) other cooperative agreements and technical assistance contracts. Since 1995, Congress has appropriated more than \$660 million to OCFT to support international child labor research, raising awareness, and technical assistance efforts.

The EI focuses uniquely on the strong link between child labor and a lack of available educational opportunities. The goal of the EI is to ensure that children withdrawn from child labor or at risk of working receive quality basic education. After identifying recipient countries, the EI conducts needs assessments to identify gaps between existing efforts in the area of child labor and education systems' capacity to provide quality and relevant education. EI grants are awarded to a variety of agencies, including international organizations and local and international non-governmental organizations selected through a competitive bidding process. Where possible, EI projects complement and support ongoing U.S.-funded IPEC projects and/or other EI or U.S. Government projects. A total of 30 cooperative agreements totaling \$134,269,715 were issued for the EI program in FYs 2004 through FY 2008.

The Government Performance and Results Act of 1993 requires U.S. Government agencies to prepare and periodically update a strategic plan, including program goals and performance measurements. Each agency publishes an annual Performance and Accountability Report detailing its performance in relation to its goals. This report is made available to Congress, the Office of Management and Budget (OMB), and the general public. DOL's strategic plan included a goal for OCFT to contribute to the elimination of the worst forms of child labor internationally. OCFT assessed its achievement of this goal by computing (1) the number of children prevented or withdrawn from child labor and provided education or training opportunities as a result of DOL-funded child labor elimination projects and (2) the number of countries with increased capacities to address child labor as a result of DOL-funded child labor elimination projects.

In the FY 2007 DOL Annual Report, the Department stated that it faces unique challenges in assuring the reliability of its performance data due to the fact that much of the data is generated by states and other sources below the Federal level.

In order to respond to OIG's major management challenges concerning the limitations of single audits for DOL grantor agencies and to verify the data received from the organizations receiving its cooperative agreements, ILAB/OCFT has entered into a BPA with an IPA to conduct attestation engagements of selected OCFT Education Initiative projects. The purpose of the attestation engagements is to determine whether the recipients are complying with the terms of their cooperative agreements and related DOL regulations; to ensure that financial reports received from the grantees are accurate and reliable; and to assess the accuracy and reliability of the performance data from the recipients' progress reports that support OCFT's performance goals and measures.

The IPA is required to meet GAS in performing its work. This includes preparing attest documentation to document the work performed and to support findings reported in a written examination report. ILAB has established policies and procedures to monitor the IPA's work.

Objective, Scope, Methodology, and Criteria

Objective

Our audit was designed to answer the following question:

Were monitoring procedures sufficiently performed to determine if attestation engagements complied with Government Auditing Standards?

Scope

We reviewed ILAB’s policies, procedures, controls, and documentation related to its oversight of attestation engagements conducted by the IPA during FYs 2004 through 2008. We also analyzed a statistical sample (12 of 25) of attestation engagements conducted by the IPA during this period, including the issued reports and supporting attest documentation.

Our assessment of internal controls focused only on those controls related to our audit objective. Our assessment was not intended to form an opinion on the adequacy of internal controls overall; we do not render such an opinion.

Our fieldwork was conducted at ILAB’s headquarters and the office of the IPA, both located in Washington, D.C.

Methodology

We identified professional standards applicable to attestation engagements. We evaluated ILAB’s procedures for monitoring the quality of the IPA’s work to determine if those procedures were sufficient to assess the IPA’s compliance with applicable professional standards. We reviewed ILAB’s internal procedures to determine the adequacy of the procedures to address IPA non-compliance with BPA requirements. We also assessed whether ILAB followed those procedures when it identified non-compliances.

We reviewed the BPA between ILAB and the IPA to determine if it included elements that would allow ILAB to adequately monitor and assure the quality of the IPA’s work. We also determined the IPA’s compliance with the BPA and how ILAB addressed instances of non-compliance, if any.

We reviewed the IPA attest documentation related to a sample of attestation engagement reports issued from FYs 2004 through 2008 to assess the IPA’s compliance with GAS. To identify the audit universe, we obtained a list of all attestation engagements conducted by the IPA from FYs 2004 – 2008. There were a total of 30 conducted during this period. We excluded 5 of these engagements from the audit universe because they were evaluations of contracts and did not include opinions on the

accuracy and reliability of the grantees' financial and performance data. We arranged the remaining 25 attestation engagements into four strata based on dollar amount of the cooperative agreement. From the four strata, we selected a random sample of 12 attestation engagements.

For each attestation engagement selected, we obtained the associated final report and supporting attest documentation. We examined the attest documentation for evidence that the IPA met GAS that were applicable to attestation engagements such as independence, auditor qualifications, due professional care, quality control, and planning and supervision.

Each report contained multiple findings which were classified as significant or non-significant. For each significant finding in our selected engagements, we examined the supporting IPA attest documentation to determine that they contained adequate support for the selected findings.

We also examined ILAB's efforts to support its grant officer in the OASAM Office of Procurement Services in fulfilling the grant officer's responsibilities for resolving report findings. We could not obtain the official BPA and resolution documentation from OASAM in a timely manner and, therefore, had to rely on ILAB to provide these documents.

We conducted this performance audit in accordance with GAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Criteria

We used the following criteria to accomplish our audit:

- OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, dated June 27, 2003.
- OMB Circular No. A-122, Costs Principles for Non-Profit Organizations, dated May 10, 2004
- Uniform Administrative Requirements: Title 29, Code of Federal Regulations, Part 95, Grants and Agreements with Institutions of Higher Education, Hospitals and other Non-Profit Organizations, dated July 1, 1997
- International Child Labor Program Operations Manual - 2006

- Government Auditing Standards (Yellow Book), July 2007 Revision
- U. S. Department of Labor Manual Series, Chapter 500
Audit Resolution, Closure, and Follow-up
- OMB Circular No. A-50, Audit Follow-up, dated September 29, 1982

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Appendix C

Acronyms and Abbreviations

BPA	Blanket Purchase Agreement
DOL	Department of Labor
EI	Child Labor Education Initiative
FY	Fiscal Year
GAS	Government Auditing Standards
ILAB	Bureau of International Labor Affairs
IPA	Independent Public Accounting Firm
IPEC	International Program on the Elimination of Child Labor
OASAM	Office of the Assistant Secretary for Administration and Management
OCFT	Office of Child Labor, Forced Labor and Human Trafficking
OIG	Office of Inspector General
OMB	Office of Management and Budget

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ILAB Response to Draft Report

U.S. Department of Labor

Bureau of International Labor Affairs
Washington, D.C. 20210



MEMORANDUM FOR ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM:  MARCIA EUGENIO
Acting Deputy Under Secretary for International Labor Affairs

DATE: March 25, 2009

SUBJECT: ILAB Comments on OIG Draft Audit Report No. 05-09-004-01-070: ILAB Could Further Improve Oversight of Attestation Engagements

We appreciate the opportunity to provide comments to the Office of Inspector General's (OIG) draft audit report concerning ILAB's attestation engagements and the audit team's collegial relationships with us, particularly during the fieldwork phase of the audit. We also appreciate OIG's incorporation of several of the recommendations from my email message of March 9, 2009 which was seeking to clarify several issues in the draft audit report. This response (1) reiterates some of our previous comments; (2) provides context and clarity to the report's findings and recommendations; and (3) describes the corrective actions that ILAB has taken or plans to take with respect to each of the report's recommendations.

To provide perspective for the report, it is important to recognize the reasons why ILAB has contracted with an Independent Public Accountant (IPA) for attestation engagement services since September 2004 and OIG's role in this initiative. In this regard, OIG's major management challenges each year from at least FY 2003 through FY 2008 have raised concerns about the adequacy of single audits to meet the audit coverage and financial management requirements of Department of Labor (DOL) grantor agencies. In response to OIG's challenges, ILAB performed an assessment of the single audits received from our Child Labor Education Initiative (EI) grantees, the majority of which are required to obtain single audits meeting the provisions of OMB Circular A-133, and our assessment validated OIG's concerns. In consultation with OIG, we proactively initiated a program of attestation engagements in September 2004 to improve oversight of the EI grantees' financial and performance reporting and compliance with cooperative agreement provisions. We sought technical assistance from OIG to review the IPA's original examination guide and the first examination report, and requested an audit to ensure that our IPA contractor is fully adhering to the *Government Auditing Standards*.

The Department of Labor's FY 2004 Performance and Accountability Report (PAR) recognized the initiation of ILAB's attestation engagement program to address the management challenges pertaining to single audits; no similar initiatives by any other DOL grantor agency have been described in the PARs for FY 2003 through FY 2008. We are unaware of any comparable programs within the Department and recommend that

OIG promote our attestation engagement initiative as a model for other DOL grantor agencies seeking to enhance grant management and accountability, and to address the limitations of the single audits that are referenced in the OIG's major management challenges.

As indicated in my comments on March 9, 2009, Finding #1 in the draft report does not clearly or precisely present the nature of the issue. The condition identified by the auditors was that the Office of Child Labor, Forced Labor and Human Trafficking's (OCFT) Operations Manual does not clearly describe the requirements of the *Government Auditing Standards* concerning the linkage of reports to attest documentation and, therefore, needs revision to give appropriate guidance to our staff. As written, the finding indicates that the Operations Manual established a requirement for the IPA that was not included in the contract, although we explained repeatedly both orally and in writing to the audit team that the Operations Manual provides guidance and training material for ILAB staff only. All requirements for the IPA are detailed in the contract which provides that the IPA will comply with the *Government Auditing Standards*. Neither the Operations Manual nor the IPA's contract "called for the IPA to provide a copy of each draft examination report that had been cross-referenced to the audit working papers," as stated in the draft audit report. My March 9, 2009 comments also cited this factual error and included the citation from the Operations Manual.

The audit report notes on page 12 that the auditors were unable to obtain the official BPA and resolution documentation from the Office of Assistant Secretary for Administration and Management (OASAM) in a timely manner and, therefore, had to rely on ILAB to provide these documents. We appreciate OIG's reference to the support provided by ILAB for the responsibilities of our Grant Officer in OASAM's Office of Procurement Services, as the need for ILAB to dedicate significant resources to fulfilling the OASAM Grant Officer's responsibilities has restricted our ability to perform working paper reviews. We were surprised that OIG's audit report does not include findings in this regard since the audit scope included reviews of the BPA and the resolution of the attestation engagements, both of which are OASAM responsibilities. Elevating this issue to the level of a finding with constructive recommendations could benefit both ILAB and OASAM.

Our specific comments and corrective actions with respect to each of the recommendations follow:

- Recommendation #1: Incorporate the policies and procedures related to its monitoring of the IPA's work in the BPA.

As discussed with the auditors during the exit conference, ILAB will incorporate in the solicitation and contract a summary of key policies and procedures related to its monitoring of the IPA's work, such as requiring applicants for the attestation engagement services to submit a description of their quality control procedures and, following contract award, to provide access to the IPA's working papers for review by ILAB and the Grant Officer.

ILAB does not plan to incorporate in the IPA's contract the complete chapter and related appendices from its Operations Manual that provide guidance and training material for ILAB staff with respect to monitoring the IPA's work, as the draft report's recommendation appears to consider necessary and appropriate. The audit team explained during the exit conference that the recommendation was not intended to require that all monitoring procedures from the manual be included in the IPA's contract, but instead was directed towards one misleading sentence in the Operations Manual. As part of the planned revisions to the Operations Manual described below, ILAB will clarify the sentence in question to explain fully for its staff the *Government Auditing Standards'* requirements concerning the linkage of reports to attest documentation or working papers.

- Recommendation #2: Expand and document its reviews of IPA working papers.

ILAB agrees with this recommendation and is committed to ensuring that the examination reports prepared by the IPA are supported by attest documentation and comply with the *Government Auditing Standards* as stipulated in the contract. OCFT plans to revise its Operations Manual before the end of Fiscal Year 2009, and the revisions will address the audit team's suggestions to define more precisely the extent of ILAB reviews of the IPA's working papers and the circumstances that warrant such a review. The revised procedures will retain our existing requirements for documenting the results of reviews of the IPA's working papers.

- Recommendation #3: Request external peer review reports in future IPA solicitations and consider them in the selection and ongoing monitoring of an IPA.

ILAB agrees with this recommendation. In the draft solicitation for a new contract for attestation engagement services to be issued in the third or fourth quarter of Fiscal Year 2009, ILAB has included a requirement for the most recent external peer review report and related letter of comment, if any, to be submitted as part of the application package. As noted in the draft solicitation, the peer review will be considered as one of the evaluation factors for assessing an applicant's past performance. In addition, the draft Statement of Work for the upcoming contract requires that the selected IPA contractor provide a copy of each external peer review report received during the course of the contract as well as related letters of comment.

We hope that these comments are useful in providing context for the work that the ILAB has been undertaking to respond to the OIG Management Challenge and ensure that taxpayers' resources are used for their intended purpose – to provide children with viable alternatives to exploitive child labor.

Please do not hesitate to contact us if you have any questions or need additional information.