


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.