



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

MAR 13 2007

The Honorable Robert W. Cobb
Inspector General
National Aeronautics and Space Administration
300 E Street SW, Code W
Washington, DC 20546-0001

Subject: Report on the External Quality Control Review of the National Aeronautics and Space Administration, Office of Inspector General Audit Organization

Dear Mr. Cobb:

This report presents the results of our External Quality Control Review of the National Aeronautics and Space Administration's Inspector General Audit Organization. The report includes your response to the draft report as Exhibit C.

We agree with your proposed corrective actions to the recommendations. We thank you and your staff for your assistance and cooperation during the conduct of this review.

A handwritten signature in black ink, appearing to read "B. Miller".

Brian D. Miller
Inspector General

Attachment





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The Honorable Robert W. Cobb
Inspector General
National Aeronautics and Space Administration
300 E Street SW, Code W
Washington, DC 20546-0001

Dear Mr. Cobb:

We have reviewed the system of quality control for the audit function of the National Aeronautics and Space Administration, Office of Inspector General (NASA OIG) in effect for the year ended September 30, 2006. A system of quality control encompasses the NASA OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming with Generally Accepted Government Auditing Standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the NASA OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the NASA OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the NASA OIG. In addition, we tested compliance with the NASA OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the NASA OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. A

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synopsis of your comments is included in the Findings and Recommendations section of this report. Your comments are included in their entirety as Exhibit C. Our scope and methodology appear as Exhibit A and General Comments appear as Exhibit B.

In our opinion, the system of quality control for the audit function of the NASA OIG in effect for the year ended September 30, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during that period, to provide the NASA OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention though they did not impact our opinion. These matters are described in the Findings and Recommendations that follow.

Findings and Recommendations

Finding 1: Supervision and Evidence

In 2003, the NASA OIG reorganized the Office of Audits and the Office of Inspections and Assessments into a single Office of Audits. As a consequence of the reorganization, the Office of Audits now employs specialists with job classifications including Aerospace Technologist (AST) and Procurement Analyst. These individuals have been incorporated into the audit teams in order to provide additional expertise needed for audits performed in NASA's highly technical environment. The NASA OIG has the expectation that all audit team members, including specialists, will accomplish their assignments in accordance with GAGAS. However, in two of the seven audits reviewed, where specialists were part of the audit team, we noted deficiencies concerning supervision and evidence.

The audit documentation¹ for report IG06014 reflected that the AST on the audit team did not provide support for his conclusions until the draft report referencing stage. As the specialists are considered to be audit team members, they are subject to the same GAGAS evidence (§7.48) and supervision (§7.45 and §7.46) requirements as any other audit team member. The AST was not directly supervised by the audit team leader or project manager, and the audit team's efforts to understand and obtain the rationale and evidence behind his opinions and statements are well documented in the project working papers. Although NASA OIG policy delineates a hierarchy under which the AST should have been supervised by the team leader, NASA OIG officials indicated that in actual practice, supervision is the responsibility of the project manager. For this audit, the program director provided the actual supervision, which did not occur during fieldwork and was primarily administrative. GAGAS supervision requirements are reflected in the NASA OIG policy that states:

Supervisors should be involved in every phase of the assignment and should make sure that the staff understands, without ambiguity, the nature,

¹ The terms audit documentation, audit evidence, and working papers are used interchangeably in this report.

scope, content, and timing of the work assigned to them and the expected end product. Supervisors should conduct timely, periodic reviews of the workpapers to ensure that the assignment is progressing satisfactorily and the workpapers adequately support the findings, opinions, conclusions, and recommendations.

The documentation for report IG06013 included an analysis of savings prepared by a Procurement Analyst that contained no cross-index to source data, and we were unable to locate all data required to support this analysis in the project file. Additionally, this individual found that a negotiation was not compliant with policy, but the effective date of the policy included in the working papers was roughly two years after the negotiation in question (the audit team was able to provide us documentation – which was not included in the audit file – indicating that this policy was substantively unchanged during this timeframe). This Procurement Analyst also prepared documentation containing errors that were carried through to the final report and which did not adequately support all conclusions. The reviewer and independent referencer did not note these instances.

Recommendation

The NASA OIG should ensure that the evidence gathered by, and supervision of, all audit team members is in accordance with GAGAS.

Views of Responsible Official: The NASA OIG agreed to notify all Office of Audits staff of the need for supervisors to ensure compliance with GAGAS and existing NASA OIG requirements for timely and thorough supervision of staff and ensuring that audit evidence is sufficient, relevant, and competent.

Finding 2: Independence

The NASA OIG Office of Audits Policy Manual adequately addresses the Independence Standard as stated in GAGAS §3.03. However, in three of the seven audits covered in this review, we noted instances where policy was either not followed or inconsistently applied.

According to the NASA OIG Office of Audits Policy Manual,

All OA staff members, including Program Assistants if they are assisting in audit analysis and research, will annually complete the Statement of Independence in Exhibit 2-2A to verify that they are independent in fact and in appearance. This statement will be completed on a fiscal year basis in conjunction with the filing of required annual financial disclosure forms. Even though this statement is signed annually, staff members should always be aware of any potential impairment to independence and immediately notify their supervisor if any potential impairment arises subsequent to signing the annual statement

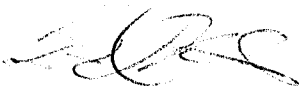
...At the beginning of each assignment, the project supervisor (Project Manager or Program Director) should discuss the independence requirement with each team member. Throughout the project, the supervisor should also discuss the independence requirement with anyone who works on the assignment (including the independent referencer). The supervisor should document the results of these discussions in the appropriate section of the TeamMate file. This discussion serves as a reminder that employees should always be aware of any potential impairment and to document potential impairments that arise after the annual Statement is signed.

In reviewing the working papers for reports IG06009 and IG06013, we saw no evidence of the audit team's discussion of independence with regard to these projects. In both cases, the step for the team's discussion of independence was not included in the project working papers. In addition, the audit team working on report IG06011 attempted to document independence by having each member complete and sign a "Statement of Non-Conflict of Interest" form (Exhibit 2-2A) specifically related to the project. However, the audit working papers did not include completed forms for the two report referencers who worked on this project. While this practice is not consistent with the aforementioned NASA OIG Office of Audits policy, it is important to note that all related team members did have their annual Statement of Independence forms (Exhibit 2-2A) appropriately filed with NASA OIG Central Office.

Recommendation

The NASA OIG should reemphasize its policy on independence documentation and implement steps to ensure a consistent approach throughout the Office of Audits.

Views of Responsible Official: The NASA OIG agreed to notify all Office of Audits staff of the need for supervisors to ensure compliance with existing NASA OIG requirements for discussing and documenting independence requirements at the beginning of each assignment and throughout the assignment with anyone brought in to work on it, to include the independent referencer.



Brian D. Miller
Inspector General

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the NASA OIG's system of quality control to the extent we considered appropriate. These tests included a review of seven of twenty-one GAGAS audit reports issued during the March 31, 2006 and September 30, 2006 semiannual reporting periods. In addition, we reviewed the financial statement audit monitoring activities covering the FY 2005 financial statements for NASA that were performed under contract by Ernst and Young. We also reviewed two internal quality control reviews performed by the NASA OIG.

OIG Offices Reviewed

We reviewed audits from all the NASA OIG Directorates: Financial and Institutional Management, Financial Statement, Information Technology, Procurement, Science and Aeronautics Research, Space Ops and Exploration, and Quality Assurance. We visited the NASA OIG Headquarters as well as the Goddard Space Flight Center, John F. Kennedy Space Center, and Langley Research Center offices of the NASA OIG.

Audit Reports Reviewed

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
FSMEMO07	11/14/2005	Audit of the National Aeronautics and Space Administration's Fiscal Year 2005 Financial Statements
IG06004	03/21/2006	Information Assurance Controls On Goddard's Systems Safety & Mission Assurance Systems Need Strengthening
IG06009	04/10/2006	Antideficiency Act Violations at the National Aeronautics and Space Administration
IG06011	05/09/2006	Audit of NASA's Response to the Columbia Accident Investigation Board Recommendation Concerning Mission Management Team Training

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
IG06013	08/28/2006	Subcontract Management By the United Space Alliance Under the Space Flight Operations Contract
IG06014	08/30/2006	Space Shuttle Program Problem Reporting and Corrective Action Process at Kennedy Space Center Needs Improvement
IG06016	08/29/2006	NASA's Implementation of the National Incident Management System
NASA OIG Internal Quality Assurance Review	06/21/2006	Internal Quality Control Review of Financial Statement Audit Directorate
NASA OIG Internal Quality Assurance Review	08/09/2006	Internal Quality Assurance Review of Assignments Completed Between October 2005 and March 2006

General Comments

We observed numerous positive audit practices in the NASA OIG's audit organization. Overall, the audit staff showed a high level of professionalism and expertise. The audit staff displayed a thorough knowledge of the audits we reviewed and the audit organization's policies and procedures.

We also noted positive practices and controls recently instituted to help ensure audits were performed in accordance with professional standards. In particular, the NASA OIG Policy Manual provides detailed guidance and also integrates this guidance with the NASA OIG's electronic workpaper system. The internal quality assurance reports we reviewed were insightful and contained in-depth coverage of the organizational element assessed.

We appreciate the time, effort, and professionalism that the NASA OIG staff provided during our review. The Quality Assurance Directorate was especially helpful and ensured that the review team was able to complete its work in an efficient and effective manner.

NASA's Response to Draft Report

National Aeronautics and Space Administration
Office of Inspector General
Washington, DC 20546-0001



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The Honorable Brian D. Miller
Inspector General
U.S. General Services Administration, Office of Inspector General
1800 F Street N.W.
Washington, D.C. 20405

Dear Mr. Miller:

The National Aeronautics and Space Administration (NASA), Office of Inspector General (OIG) has reviewed the draft report of your peer review opinion on the system of quality control for the audit function of the NASA OIG in effect for the year ended September 30, 2006. We acknowledge and appreciate the overall opinion that the NASA OIG has designed and is implementing a system of quality control in accordance with the Comptroller General of the United States' standards to provide reasonable assurance of compliance with applicable auditing standards, policies, and procedures in conducting audits.

The draft report also contained two recommendations to address reportable conditions identified by your work that did not affect the overall opinion.

Recommendation 1. The NASA OIG should ensure that the evidence gathered by, and supervision of, all audit team members is in accordance with generally accepted government auditing standards (GAGAS).

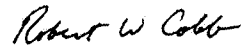
Recommendation 2. The NASA OIG should reemphasize its policy on independence documentation and implement steps to ensure a consistent approach throughout the Office of Audits.

NASA OIG Response. We concur with your recommendations and will take the following corrective actions. The Assistant Inspector General for Auditing (AIGA) will notify all office of audits staff of your conclusions, findings, and recommendations. The notification will cite the need for supervisors to ensure compliance with GAGAS and existing NASA OIG requirements for 1) timely and thorough supervision of staff, 2) ensuring that audit evidence is sufficient, relevant and competent and, 3) discussing and documenting independence requirements at the beginning of each assignment (see the Enclosure). In addition, the AIGA will address your conclusions, findings and recommendations with all audit staff during the next Office of Audits conference, currently planned for the summer of 2007. In the meantime, the AIGA has talked with Program Directors about the peer review results and

emphasized the need to discuss the importance of strict compliance with existing requirements with staff.

I thank you and your staff for the professional work done on the peer review. If you have any questions, please contact Evelyn Klemstine, Assistant Inspector General for Auditing, at 202-358-2572 or me at 202-358-1220.

Sincerely,



Robert W. Cobb
Inspector General

Enclosure

cc:
Acting Deputy Inspector General, General Services Administration
Assistant Inspector General for Auditing, General Services Administration

Proposed E-Mail to the Office of Audits Staff

The purpose of this email is to advise you of the results of our peer review conducted by the General Services Administration's Office of Inspector General (GSA OIG). We received an "unmodified" opinion, which means that we have designed and implemented a system of quality control that provides reasonable assurance of compliance with generally accepted government auditing standards (GAGAS). However, the GSA OIG reported two findings of non-compliance with our policies for: (1) supervision and evidence and (2) independence. In order to ensure that we address the GSA OIG's recommendations, I am requesting that all Office of Audits staff review the requirements discussed below and ensure compliance in your ongoing and future work.

Finding 1. In two of the seven audits they reviewed, GSA found deficiencies in the supervision of assigned staff and evidence supporting our conclusions. In one audit, GSA found that there was no support in the workpapers for conclusions in the draft report until after the referencing stage. On another audit, some of the supporting documentation, which contained errors that were carried through to the final report, did not support the conclusions reached. These deficiencies occurred because Program Directors and Project Managers were not ensuring that the work of all assigned staff was supervised in accordance with GAGAS and existing NASA OIG requirements. In addition, the deficiencies were not identified during independent referencing. These events reflect an unacceptable break down in the internal control structure designed to ensure that our work is reliable.

Both supervision and evidence are specifically addressed in our internal policy manual.

The Office of Audits Policy Manual (APM) Chapter 2-5 (Workpapers), which details the policies and procedures for preparing, reviewing, and managing assignment workpapers, emphasizes the importance of supervision in ensuring quality as follows:

Supervision is an important aspect of ensuring assignment quality . . . Supervisors should conduct timely, periodic reviews of the workpapers to ensure that the assignment is progressing satisfactorily and the workpapers adequately support the findings, opinions, conclusions, and recommendations. Supervisory workpapers reviews should be documented and maintained in the assignment file.

Similarly, APM Chapter 2-4 (Evidence) details the policies and procedures for identifying, obtaining, assessing, and relying on evidence obtained during audits. Auditors and their supervisors should ensure that their evidence (documented in workpapers) provides a factual basis for opinions, conclusions, and recommendations. The evidence should meet the basic tests of sufficiency, relevance, and competence.

Supervisors are reminded that "audit planning, execution, and products" is a critical element of their performance plans. This element has a performance indicator on complying with GAGAS and our internal policy and procedures.

All non-supervisory staff are reminded that "data analysis" is a critical element of their performance plans. This element has a performance indicator for complying with GAGAS and our internal policy and procedures.

In discussing this finding with the GSA audit team, they noted that some Program Managers weren't applying the same level of supervision to specialists as other staff. Government Auditing Standards, state that, "[a]udit organizations should ensure that staff members assigned to conduct an audit . . . should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment." We assign specialists to audit teams to ensure that we have the collective competencies necessary to address the issues being reviewed. Government Auditing Standards define an auditor as an analyst, evaluator, inspector, engineer or other technical specialist. Therefore, it is required that all audit work is subject to the same evidence standards.

Findings 2. GSA OIG found that our audit teams were not consistently documenting their discussions of the GAGAS independence standard as required by our APM. APM Chapter 2-2 (Independence), states that the project supervisor (Project Manager or Program Director) should discuss the independence requirement with each team member at the beginning of each assignment and throughout the assignment with anyone brought in to work on it, to include the independent referencer. This requirement was put in place to ensure that each team member does not have an impairment that would violate the GAGAS independence standard. Therefore, project supervisors and assigned staff should ensure that the results of their discussions on independence are documented in a workpaper in the appropriate section of each assignment file.

Thank you for your attention to these important requirements. Should you have questions, please discuss them with your supervisor or Jackie White, Director of Quality Assurance.