

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



AUG - 2 2004

Mr. Dennis S. Schindel
Acting Inspector General
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Schindel:

We reviewed the system of quality control for the audit function of the Department of the Treasury, Office of Inspector General (OIG) that was in effect for the period ending March 31, 2003. Our review conformed to standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the Treasury OIG system of quality control, including a review of the audits identified in the enclosure.

In our opinion, the system of quality control for the audit function of the Treasury OIG in effect for the period ended March 31, 2003, was designed in accordance with the PCIE quality standards and was being complied with to provide reasonable overall assurance of material compliance with professional auditing standards in the conduct of Treasury OIG audits. Therefore, we are issuing an unqualified opinion on your system of audit quality control.

In performing our review, we gave consideration to the policy statement on quality control and external reviews, dated September 2003, issued by the PCIE. That statement indicates that the quality control policies and procedures of the OIG should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. The statement also recognizes that the nature, extent, and formality of that system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work, and its organizational structure.

In the enclosed Letter of Comments, we identify deficiencies that generally apply to multiple Treasury OIG audit divisions and processes. This letter is an integral part of this peer review and should be read in conjunction with this opinion letter when considering the results of our work. Taken as a whole, the deficiencies we note do not, according to PCIE guidance, meet the criteria for other than an unqualified opinion. However, one division, the Office of Information Technology Audits, needs significant improvement in complying with Government Auditing Standards and with the Treasury OIG auditing policies.

Sincerely,



Robert W. Cobb
Inspector General

2 Enclosures

1. Peer Review Scope and Methodology
2. Letter of Comments (w/o Enclosure 1 and 2)

cc:

Ms. Marla Freedman

PEER REVIEW SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the Department of the Treasury, Office of the Inspector General's (OIG) system of quality control to the extent we considered appropriate. These tests initially included a review of 13 of 76 reports (17 percent of the audit universe) issued during the reporting period beginning April 1, 2002, and ending March 31, 2003. Of the original sample, six were performance audit reports, two were information technology (IT) reports, three were financial statement reports, and two were reports issued by independent public accountants (IPAs). We also reviewed selected internal quality control reviews performed by the Treasury OIG.

As our field work progressed, we expanded our testing for selected parameters to include an additional 15 reports. We added:

- 8 IT reports to assess the potential materiality of certain issues identified from our original sample of IT audits.
- 3 performance audit reports from the Western Region to assess the extent and scope of certain reporting issues identified during the field work at this field office.
- 4 IPA reports to assess the adequacy and consistency of the level of oversight provided by the Treasury OIG during such audits.

OIG Offices Reviewed

We visited the Headquarters offices of the Treasury OIG located in Washington, D.C. We also visited the San Francisco field office, which was the sole field location remaining after the divestiture of resources from the Treasury OIG to the Department of Homeland Security on March 1, 2003.

Reports Reviewed

	Report Number	Report Date	Report Title
Financial Statements			
1	OIG-03-014	11/15/02	Audit of the Department of Treasury's Fiscal Years 2002 and 2001 Financial Statements
2	OIG-03-037	12/20/02	Financial Management: Audit of the Exchange Stabilization Fund's Fiscal Years 2002 and 2001 Financial Statements
3	OIG-03-015	11/13/02	Financial Management: Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2002 and 2001
Information Technology			
4 ^a	OIG-01-034	1/31/01	Final Audit Report Review on the U.S. Mint Computer Security Plans
5 ^a	OIG-01-044	2/17/01	Information Technology: Treasury Web Sites Substantially Comply with OMB Privacy Policies and Data Collection Standards
6 ^a	OIG-02-015	12/14/01	Information Technology: Controls Over The Financial Management Service's e-Commerce Systems are Inadequate
7 ^a	OIG-02-029	12/31/01	Information Technology: Management's Planned Actions for Establishing and Enforcing Web Site Practices and Polices Have Not Been Fully Implemented
8	OIG-02-115	9/9/02	Information Technology: Treasury's Planning, Management, and Implementation of a Smart Card and Public Key Infrastructure Needs Improvement
9 ^a	OIG-03-002	10/3/02	Information Technology: Controls Over Secret Service's Law Enforcement Data Needs Improvement
10 ^a	OIG-03-009	10/24/02	Information Technology: the Bureau of the Public Debt's Certificate Policy Statement Should be Updated
11 ^a	OIG-03-058	2/13/03	Customs ACE Management: Improved Management of Reengineering Needed
12 ^a	OIG-03-061	2/27/03	Information Technology: The Bureau of Alcohol, Tobacco, and Firearms Needs to Strengthen System Security and Controls for Its Law Enforcement Data
13	OIG-03-070	3/27/03	Information Technology: Security Vulnerabilities Pose Risks to the Bureau of Engraving and Printing's Network and Systems

^a Additional sample items selected based on conditions found in the original sample. Only selected aspects of these sample items were reviewed.

^b These audits were performed by the Treasury OIG's Western Region.

	Report Number	Report Date	Report Title
Performance Audits			
14	OIG-02-082	4/26/02	Foreign Assets Control: OFAC's Ability to Monitor Financial Institution Compliance is Limited Due to Legislative Impairments
15	OIG-02-098	6/20/02	Revenue Collection: Extensive Claims Review But Few Inspections in ATF's Non-Beverage Drawback Program
16	OIG-02-105	7/18/02	Federal Efforts to Recover Unclaimed State-Held Assets Face Many Challenges and Obstacles ^b
17 ^a	OIG-02-111	8/20/02	Follow-on Report to the Material Loss Review of Superior Bank FSB ^b
18	OIG-03-004	10/16/02	General Management: The Bureau of Engraving and Printing's Controls Over Background Investigations Need to be Improved
19	OIG-03-024	11/26/02	Material Loss Review of Nextbank, NA ^b
20 ^a	OIG-03-031	12/16/02	Purchase Card Usage at Western District and Headquarters ^b
21	OIG-03-032	12/17/02	Office of Comptroller of the Currency: Material Loss Review of Hamilton Bank, NA
22 ^a	OIG-03-035	12/18/02	Reliability of Suspicious Activity Reports ^b
Independent Public Accountants			
23 ^a	OIG-03-018	11/19/02	Audited Financial Statements of the Office of D.C. Pensions for Fiscal Years 2002 and 2001
24 ^a	OIG-03-028	12/4/02	Audited Financial Statements of the Federal Financing Bank for Fiscal Year 2002 and 2001
25 ^a	OIG-03-033	12/16/02	Report on Internal Control Over Financial Reporting of the U.S. Customs Service for Fiscal Year 2002
26	OIG-03-039	12/23/02	Audit of the Financial Management Service's Fiscal Years 2002 and 2001 Schedules of Non-Entity
27	OIG-03-064	2/28/03	Report on the Review of the United States Customs Service EDP General and Selected Application Controls
28 ^a	OIG-03-076	4/14/03	Financial Management: Audit of the United States Mint's Fiscal Year 2002 and 2001 Financial Statements

^a Additional sample items selected based on conditions found in the original sample. Only selected aspects of these sample items were reviewed.

^b These audits were performed by the Treasury OIG's Western Region.

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AUG - 2 2004

Ms. Marla Freedman
Assistant Inspector General for Audit
Department of the Treasury
740 15th Street, NW
Washington DC 20220

Dear Ms. Freedman:

We reviewed the system of quality control for the audit function of the Department of the Treasury, Office of Inspector General (OIG) in effect for the period ended March 31, 2003, and have issued an unqualified opinion report (Enclosure 1). This letter companions that report and identifies numerous areas and opportunities for improvement to the Treasury OIG's audit program.

We conducted our review to determine whether the Treasury OIG's internal quality control system was designed in accordance with the President's Council on Integrity and Efficiency (PCIE) quality standards and was being complied with to provide reasonable assurance of material compliance with professional auditing standards in the conduct of Treasury OIG audits. We conducted our review in conformity with standards and guidelines established by the PCIE. Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we identified 11 reportable conditions we considered in determining the opinion. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of

the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures. Enclosure 2 lists the reports that we reviewed.

On March 8, 2004, we discussed our observations at the exit conference with senior members of your staff. Your response to our draft report is summarized below and included in its entirety as Enclosure 3. The actions taken and planned are responsive to our recommendations.

Reportable Conditions

Finding 1. OIG Policy Manual Updates and Implementation

Government Auditing Standard (GAS) 3.32 states that the internal quality control system established by the audit organization should provide reasonable assurance that it has established, and is following, adequate audit policies and procedures. The PCIE Audit Committee policy statement on internal quality control reviews also states that the internal quality control system should be suitably designed in a way that will provide reasonable assurance that the audit organization has established, and is following, adequate audit policies and procedures. The policy statement further provides that the organization's quality control policies and procedures should, at a minimum, encompass the elements of (1) staff qualifications, (2) independence, (3) audit performance, and (4) internal review.

The Treasury OIG audit manual (Section 4000 of the Treasury OIG Manual) was not adequately maintained or updated. According to OIG officials, the audit manual was last updated in 1998. Since that time, OIG management has issued various policy directives by e-mail. However, the e-mails frequently address multiple subjects. Important policy issues are at times contained in the e-mail communications. Further, OIG management does not assign policy numbers to the e-mails, which would facilitate future retrieval and incorporation into the audit manual. For example, during our visit to the Western Region, the Director experienced difficulty in identifying policy-related e-mails that we had requested for our review.

Auditors can access the Treasury OIG Manual on an internally shared computer network. However, the shared network does not always include the guidance issued via e-mail. In addition, certain sections of the Treasury OIG Manual at the time of our review were not posted to the shared network drive so that auditors could access them. Examples include Section 2140, which addresses guidance involving the recording and tracking of continuing professional education (CPE) credits for auditors. During the peer review, Treasury OIG posted the e-mail guidance and pertinent OIG Manual chapters to the shared network drive.

We noted many errors and omissions in the audit manual, in addition to unclear and inconsistent guidance, which have caused some auditors to question the audit manual's authority and application. For example:

- The audit manual does not address oversight of Independent Public Accountants (IPAs). IPA work is a substantial component of the consolidated financial statement audit and should be addressed in the audit manual.
- Treasury OIG management advised us that auditors are expected to include in the working papers an audit program that is cross-referenced to the supporting

working papers. However, they acknowledged that this requirement was neither placed in writing nor included in the audit manual.

- The audit manual requires that referencing be performed by a GS-12 or higher graded staff. In December 2002, the Treasury OIG stated that the referencer should be at the GS-13 grade level. However, the audit manual was not updated.
- The audit manual in several places states that supervisory reviews of working papers should be timely; however, existing Treasury OIG policies do not define “timeliness.” This situation has caused supervisors to either produce their own criteria for timeliness or assume that any review they complete is timely as long as the review is completed before the final report is issued. For example, on one audit (OIG-03-024), staff performing an internal review established 30 days as the measure of timeliness for supervisory reviews (see Finding 3).
- The audit manual’s “Checklist for Financial Audits” states that the person preparing working papers should initial and date them. In contrast, the December 2002 “Checklist for Performance Audits” lacks requirements for preparers to initial and date the working papers. The audit manual contains an older checklist and not the December 2002 checklist that audit management expects to be followed on performance audits.
- The audit manual states that every working paper must be reviewed on a performance audit. However, the manual contains no guidance as to how many levels of supervisory review are required, whether staff work should be reviewed by a senior auditor and an audit manager, and whether working papers prepared by the senior auditor or the audit manager only need one level of review. In contrast, the audit manual section on financial audits provides detailed guidance in all these areas.
- The audit manual includes a template for auditors to follow when preparing draft reports. The template has a section titled “Management Comments” to be inserted between the “Finding” and “Recommendations” sections of the report. However, because another heading titled “Management Comments” is included under the “Recommendations” report section, the guidance is not clear as to what should be included in these two similarly titled report sections so that they are not redundant. The Director of the Western Region could not explain the difference and indicated that he does not use the “Management Comments” section following the findings discussion. According to the Deputy Assistant Inspector General for Audit, this section of the report was intended to capture specific management comments that were significant and not specifically addressed in the “Recommendations” section of the report.

We discussed the above concerns with Treasury OIG management and in some instances corrective actions were taken. For example, we were advised that Section 2140 of the

Treasury OIG Manual was posted to the shared network drive and the performance audit checklist was updated.

Recommendations

The Assistant Inspector General for Auditing (AIGA) should:

1. Designate a senior management official to maintain and distribute the audit manual.
2. Direct that the audit manual be updated to incorporate all policy guidance issued since 1998 via e-mail (for example, current referencing policy and procedures) and to correct all other errors and omissions.
3. Ensure that future Treasury OIG policies are made available to all employees via the shared network drive.

Views of Responsible Official

Concur. A team led by a senior audit director will comprehensively update the Audit Policy Manual to be completed no later than September 30, 2004. The revised manual will address each observation in the NASA OIG final peer review report as well as the 2003 revisions to the Government Auditing Standards. The revised manual will also include procedures for incorporating changes to policy guidance upon AIGA approval. Treasury OIG personnel will have access to the manual by way of the shared network drive.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 2. Evidence Used To Support Audit Findings

GAS 6.46 states that sufficient, competent, and relevant evidence must be obtained to afford a reasonable basis for an auditor's findings and conclusions. A record of auditor work should be retained in the form of working papers. Working papers should contain sufficient information that will enable an experienced auditor having no previous connection with the audit to ascertain from the working papers that the evidence supports an auditor's significant conclusions and judgments.

For one of the information technology (IT) audit reports we reviewed (OIG-02-115), the working papers did not always include documentation sufficient to support the findings and conclusions in the report. For two other IT reports (OIG-01-044 and OIG-02-015), the working papers were not indexed and sufficiently organized to allow us to determine whether the evidence adequately supported the report. Also, working papers for all of the three reports lacked evidence of supervisory review (see Finding 3).

OIG-02-115 is a single finding report on Treasury's management of smart cards and public key infrastructure (PKI). The report was not cross-indexed or referenced, greatly complicating the determination of whether the working papers supported the report. We were unable to find adequate working paper support for many statements in the report. In some cases, we could not find working paper support for entire major sections of the finding. For example:

- We were unable to find working paper support for the statement, "The lack of a program plan and appropriate funding resulted in a 1-year delay in the implementation of the Treasury CA [Certificate Authority] and OCA [Operational Certificate Authority]."
- The report states, "When we interviewed staff from OISS [Office Information Security Systems], CSC [Customer Service Consulting], and CSIO [Customer Service Infrastructure Operations], we noted that employees have only limited practical experience with PKI that was gained through unsuccessful projects that were relatively small-scale applications that had a well-defined end-user community." The working papers did not contain support for that statement. The working papers for this report section contained documentation of only one interview, the CSC Director. According to the auditor's working paper, the CSC Director "does not know about the success or failure of the PKI pilot but said that she thought it was successful but there are no documents to support success or failure."
- The working papers for the section of the report titled "A Treasury Cross-Certification Policy Must be Established" consisted of (1) a description of a PKI cross-certification process the Canadian government used and furnished by the Treasury Board Secretariat of Canada, and (2) security software information downloaded from the Internet. The information apparently was used as a basis for

establishing the elements of a sound cross-certification policy that was presented in the report. However, we were unable to determine a clear link between the information in the report and the working paper documentation. Also, no documentation existed to indicate that the Treasury did not have a cross-certification policy.

In some cases, no indication existed that the auditor tested or validated the information provided by Treasury officials. For example, report OIG-02-115 describes efforts by six Treasury bureaus to independently develop smart card and PKI initiatives. Most of the information appears to be from e-mail responses the bureaus provided in response to e-mail queries from the auditor. The information was presented in the report as factual with no indication in the working papers that the auditor tested the information for accuracy. In addition, we were unable to find supporting working papers for some of the information presented in the report for four of the six bureaus. Treasury OIG officials stated that some working papers related to the report had been lost and that they were unable to locate the missing working papers.

For reports OIG-01-044 and OIG-02-015, the working papers were not organized in a logical manner and were not indexed according to a standard numbering system. As a result, we were unable to determine whether the working papers demonstrated that sufficient, competent, and relevant evidence was obtained to support these reports. Report OIG-01-044 was not referenced. Report OIG-02-015 was referenced, and the independent referencer made 39 comments concerning the quality of the working papers, adequacy of indexing, and sufficiency of working paper evidence to support the report. However, there was no documentation to indicate that the referencer comments were addressed (see Finding 4).

The previous two independent external peer reviews raised concerns about sufficient support for reported findings. The Department of Education (ED) OIG in its February 1998 management letter states that on 1 audit the support was not adequate for 18 of the 35 references sampled. In its February 2002 report, the Department of the Interior (DOI) OIG states that two of the audit reports had findings based on insufficient testing or documentation.

Recommendations

The AIGA should:

4. Ensure that the physical, documentary, testimonial, and analytical evidence supports the significant conclusions and judgments of the auditor, and that report findings are documented in the working papers in a clear, logical manner.
5. Review the evidence problems identified for the three IT reports and identify an appropriate course of action, such as indexing and referencing the reports or conducting new audits.

6. Accelerate plans for performing an internal review of the IT Directorate with a major focus on the quality of evidence used to support audit findings.

Views of Responsible Official

Concur. We have shared the draft report with our managers and have on several occasions discussed the issues with them. The updated Audit Policy Manual will expand the current internal quality reviews for program audits and include IT audits and other work our office has performed. The results of the reviews will be reported directly to the AIGA. We will consider conducting follow-up audits in the subject areas of the three cited IT reports as part of our planning process.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 3. Supervisory Review of Working Papers

GAS 6.64c states that working papers should contain evidence of supervisory review. The Treasury OIG audit manual requires that every working paper that an audit staff member prepared must be reviewed (Section 443.23) and that such working papers should be reviewed timely (Section 411.11). Section 472.12 further identifies supervision as one of the two major OIG quality control processes existing within the audit organization.

Supervisory reviews were not always performed or performed timely, and those conditions were not unique to a particular audit directorate. For example:

- Of the 10 IT audits reviewed, 6 had problems with supervisory review. Of those, three (OIG-01-044, OIG-02-015, and OIG-02-115) contained no evidence of supervisory reviews of the working papers. An additional 3 audits contained incomplete supervisory reviews: only 1 section of working papers was reviewed on OIG-03-009, 6 working paper sections were not reviewed on OIG-03-058, and 43 working papers were not reviewed on OIG-01-034.
- Of the three financial statement audits reviewed, two (OIG-03-014 and OIG-03-037) did not document interim supervisory reviews in the working papers, and the final reviews in some cases occurred after final report issuance. The condition occurred because supervisors did not sign or date their review of the working papers until the working papers contained all required elements, such as cross-indexes. In some cases, the supervisor maintained outside of the official working papers evidence of supervisory reviews but often such reviews were not dated to evidence when the review had occurred. According to Treasury OIG officials, there is no requirement to document interim supervisory reviews. However, we determined that such reviews do occur and, therefore, should be documented in the working papers.
- Of the six performance audits reviewed, two had untimely or incomplete supervisory reviews. For example, anywhere from 2 months to 5 months elapsed before the Auditor-in-Charge performed the required supervisory review of approximately 30 working papers on OIG-02-105. We used 30 days as the criterion for timeliness—the same criterion Treasury OIG auditors had used on an internal quality control review. For OIG-03-024, 3 working papers were not reviewed, 25 were reviewed but not dated, and 13 took between 32 days and 4 months before the required supervisory reviews were performed.

The problems that the Treasury OIG experienced in documenting supervision and performing timely supervisory reviews was raised in previous external quality control reviews. For example, in February 1998, the ED OIG reported instances where the level of supervision provided during audits was not clearly documented in the working papers. The report also states that supervisory reviews of many of the working papers were dated well after the working papers were prepared and signed by the auditors. In its February 2002 peer review report, the DOI OIG reports deficiencies in the area of supervision.

Also in February 2002, the DOI OIG found that the Treasury OIG did not implement certain corrective actions that would correct the problems the ED OIG previously identified.

Existing Treasury OIG policies do not define “timeliness.” The timeliness of supervisory reviews is difficult to evaluate without criteria for what constitutes a timely review. The lack of a definition has impacted other areas of Treasury OIG operations, such as the performance of internal quality control reviews. In one case, as noted above, auditors performing such a review elected to use a 30-day period as their criterion for determining the timeliness of working paper reviews for the audit being evaluated. We believe that Treasury OIG auditors should have a common understanding as to what management considers is a timely review of the working papers and that such criteria are consistently applied throughout the audit organization.

Recommendation

7. The AIGA should ensure that all working papers are timely reviewed by a supervisor and that management’s expectations for what constitutes a timely review of the working papers are clearly communicated to all of the audit staff.

Views of Responsible Official

Concur. The updated Audit Policy Manual will set forth our expectations for what constitutes timely supervisor review. We expect that all working papers will be reviewed by specific critical milestones in the audit (for example, at the end of planning/survey prior to fieldwork, at the end of fieldwork prior to reporting, and prior to final report issuance). Adherence to those expectations will be looked at as part of internal quality reviews of selected audits. Supervisory review requirements will also be reinforced through staff meetings.

NASA OIG Comments

The actions are responsive to the recommendation.

Finding 4. Independent Referencing and Cross-Indexing of Audit Reports

Section 454.15 of the Treasury OIG audit manual acknowledges referencing as an important quality control process that helps ensure the contents of a report are factually accurate and adequately supported, and that the logic of the report is sound. Section 454.16 defines referencing as being done by a competent, independent auditor who ensures that sufficient, credible data were presented to support the report's conclusions and recommendations. The referencer traces such things as facts, figures, and dates from draft reports or memorandums to the supporting working papers. Section 443.29 requires that Treasury OIG directors, prior to signing the report or sending it to Headquarters for signature, ensure that an auditor has referenced the report and that the referencer is independent of the director undergoing the referencing process. In addition, the Treasury OIG's "Checklist for Performance Audits" (Treasury OIG Manual Chapter 4400-A) contains a step in Section 1.4 for ensuring all comments of the referencer are resolved before the report is issued. The PCIE also recognizes the importance of referencing as an essential element of sound quality control. In its February 2002 policy statement on internal and external quality control reviews, the PCIE's Audit Committee recommends that adequate internal controls, at a minimum, should include independent referencing of all reports.

Not all reports were independently referenced or properly cross-indexed to the supporting working papers. In addition, for some reports, not all referencer comments were cleared.

- Of the 10 IT audits reviewed, 7 had referencing concerns. Of the 10 reports, 4 reports (OIG-01-044, OIG-02-115, OIG-03-002, and OIG-03-009) were issued without being referenced. For one audit (OIG-01-034), we determined that referencing had occurred; however, we could not review the referencing notes because the working papers were missing from the file and Treasury OIG staff could not produce them. On two audits (OIG-02-015 and OIG-03-058), referencing was performed, but all referencing notes were not resolved before the report was issued. Examples of unresolved notes on OIG-02-015 include the lack of support for statements made in the audit report and the need for working papers to include the signature and date of both the preparer and supervisor.
- Of the six performance audits reviewed, two had referencing concerns. For one audit (OIG-03-032), the final report contains two date citations that were incorrect (however, the incorrect dates did not materially impact the report). In another report (OIG-03-024), OIG staff did not ensure that substantive changes made to the draft report were referenced prior to final report issuance. For example, the material not referenced included management's comments and the Treasury OIG assessment of those comments, which the Deputy AIGA considered substantive changes.
- All three financial statement audits had referencing concerns. One report (OIG-03-015) was issued without being referenced. The other two reports (OIG-03-014 and OIG-03-037) were not properly cross-indexed to the supporting

working papers. The majority of cross-indexes were to Office of Management and Budget (OMB) Bulletin 01-02 or the U.S. General Accounting Office (GAO) Financial Audit Manual rather than to the actual working papers that supported the report conclusions.

The lack of referencing was a concern raised in a previous independent external peer review. In its February 1998 report, the ED OIG reports instances where referencing was either not performed or not completed. For example, the report states that two of the three financial statement audits did not go through the independent referencing process although required by existing Treasury OIG policies and procedures. Also reported in the 1998 report was an instance where changes from the draft to the final report were not independently referenced. In addition, the ED OIG identified problems with working paper indexing and cross-indexing. Although the DOI OIG did not identify referencing as a concern in its February 2002 report, the DOI auditors found problems with working papers not adequately cross-indexed to supporting documents.

Recommendations

The AIGA should:

8. Ensure that draft reports are properly cross-indexed to the supporting working papers prior to the independent referencing process, independently referenced before OIG directors sign or transmit the reports to Headquarters for signature, and referencer notes are cleared before the draft report is signed or transmitted to Headquarters for signature prior to final report issuance.
9. Ensure that substantive changes to the final report are cross-indexed and referenced prior to final report issuance.
10. Ensure that referencers receive sufficient training.
11. Review the final reports identified in this finding as having cross-indexing or referencing concerns and determine an appropriate course of action. Alternatives include cross-indexing and referencing the reports or performing another audit of the subject matter in the near future.

Views of Responsible Official

Concur. Recommendation 8 and Recommendation 9 are consistent with Treasury OIG policy, and staff meetings are being used to reinforce the requirements. As an additional control, the report referencer will be from an audit directorate that is different than the directorate preparing the report unless prior approval is received and rationale for approval appropriate. Directors have also been instructed to ensure that each comment of the referencer is resolved before signing out the draft and final report or submitting the report for AIGA signature. Those controls will be included in the revised Audit Policy Manual.

With respect to Recommendation 10, the Eastern Field Audit Office is developing an Office of Audits training course on referencing.

We have reviewed the reports identified in this finding as indicated in Recommendation 11. We believe the additional controls we have implemented will prevent a recurrence of the conditions noted in this finding. We will also consider the subject matter of the cited audits for follow-up at those bureaus still with Treasury as part of our audit planning process.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 5. Internal Quality Assurance Reviews

GAS 3.31 requires each audit organization conducting audits in accordance with GAS to have an appropriate internal quality control system in place and undergo an external quality control review. The PCIE's "Guide for Conducting External Quality Control Reviews of the Audit Operations of Offices of Inspector General" requires that PCIE members maintain internal quality control policies and procedures that, at a minimum, encompass the elements of internal review. The guidance also addresses characteristics that the internal review program should possess, such as (1) the qualifications of the individual leading such a review, (2) the process for preparing the written results and the need to obtain written comments on each recommendation by the official responsible for managing the audit organization reviewed, and (3) a process for resolving and following up on recommended corrective actions.

The Treasury OIG needs to improve its internal quality assurance review process. For example, during the 36-month review period, Treasury OIG did not have an internal review program for almost 22 months (January 2001 through mid-October 2002). In our opinion, the Treasury OIG's overall quality control system was substantially weakened without a program for such an extended period. An effective internal review program should have detected many of the concerns (for example, supervision and referencing issues) that we identified in our independent external peer review. According to Treasury OIG officials, the auditor responsible for the performance of the internal reviews retired in January 2001. Senior Treasury OIG management advised us that it did not designate someone to fill this important role.

To prepare for the impending external peer review and to comply with the PCIE requirement for an internal review program, Treasury OIG implemented an interim measure to reinstate an internal review program effective October 2002. The interim measure called for performing an internal review of one audit report each month using the PCIE "Checklist for Review of Individual Performance Audits" dated September 2002. The interim measure also provided for the development of a template that could be used for reporting the review results and for refining the checklist. We were advised that the revised checklist was in fact developed prior to the start of the first internal review and expanded to address unique Treasury OIG concerns such as referencing compliance. The Deputy AIGA currently administers this program until the interim measure can be finalized.

The internal reviews Treasury OIG performed were generally completed in accordance with their interim policy, and the reviews produced meaningful findings and recommendations. However, the interim measure did not fully implement the internal quality control system outlined by the PCIE Audit Committee in its February 2002 policy statement on internal quality control reviews.¹ The PCIE recognizes that some OIGs might not have the resources to implement an extensive system. The PCIE policy

¹ The PCIE Audit Committee updated its policy statement in September 2003. The revision provided additional guidance and clarification on the implementation of the general standard on quality control and assurance in the Government Auditing Standards.

provides that the “elements of the internal quality control system should be set forth in the written policies and procedures of the Office of the Inspector General, together with the justification for using a less extensive system and explanation as to why the alternative controls can be effective for that organization.” In our opinion, the Treasury OIG has not complied with this PCIE policy statement because management has not justified using the less extensive controls afforded under the interim measure.

We identified the following concerns with the new policy that the Treasury OIG should correct prior to incorporating the interim measure into the Treasury OIG audit manual.

- The interim measure does not take into account the divestiture in March 2003 of Treasury OIG resources to the Department of Homeland Security. The divestiture has significantly impacted the ability of the remaining Treasury OIG resources to accomplish management’s goal of reviewing one audit each month.
- In certain cases, auditors were summarizing auditee comments rather than including them as a detailed attachment to the internal review report. In a policy statement on internal quality control dated February 2002, the PCIE’s Audit Committee states that written comments should be provided on each recommendation by the official responsible for managing the audit organization reviewed, setting forth corrective actions taken or planned. The Treasury OIG template designed for reporting the results of internal reviews effectively implements the PCIE guidance. However, in summarizing the comments received, auditors are deviating from the established template and the internal quality control guidance of the PCIE Audit Committee.
- The interim measure requires that auditors use the latest PCIE peer review checklist in conducting the internal review instead of the expanded checklist developed specifically for Treasury OIG internal reviews.
- The interim measure does not require that corrective actions be tracked and monitored.

The Deputy AIGA is planning to subject the CPE program to an annual internal review. However, we are not aware of any guidance that management has developed for auditors to follow when performing such a review. The interim measure does not provide such guidance. Guidance could be in the form of a checklist that would address such things as the work steps to be implemented in the review and the level of testing required to satisfy management’s expectations for an effective and efficient functioning CPE tracking system.

In addition to making the above improvements, Treasury OIG could also improve the quality of its internal reviews. In examining three of the completed reviews, we determined for one review (OIG-03-024) that the internal review team did not identify potentially significant deficiencies. For example, the internal review:

- Verified CPEs audit staff claimed against the files located in the field office rather than against the records being maintained centrally at Treasury OIG Headquarters. Such a match should have been done to identify problems with the centralized database prior to this matter being identified and reported in our external peer review.
- Identified several concerns in the area of CPE compliance, such as completed training not being recorded in the system, but verbally discussed these with the audit manager rather than include these matters in the report.

We also noted that no supervisory review of the internal review team working papers was present (see Finding 3).

Recommendations

The AIGA should:

12. Re-establish a senior management official responsible for the internal review function.
13. Ensure that the internal review program possesses the characteristics contained in Appendix I of the PCIE peer review guide, including a justification for implementing a less extensive internal review program than that advocated by the PCIE Audit Committee.
14. Modify the interim measure as necessary to address the concerns raised in this report and formally incorporate the measure into the Treasury OIG audit manual, including referencing or attaching the internal review checklist to the final guidance.
15. Clarify management expectations for the annual quality assurance review of the CPE tracking system.
16. Ensure that all audit staff understand the important role of the internal review process in the overall OIG quality control system and are committed to implementing an effective program.

Views of Responsible Official

Concur. Significant Treasury OIG resources were divested in March 2003. At this time, however, the Treasury OIG is unable to dedicate a senior management official to the internal review function. As the organization grows, we will consider re-establishing the position. We plan to continue our sampling of audits for internal quality review, to include IT audits. The AIGA will select the audits for review, and the results will be reported to the AIGA. We will ensure that applicable PCIE guidance is followed and appropriate justifications for our internal review program, where necessary, are included

in the revised Audit Policy Manual. The revised Audit Policy Manual will also prescribe the procedures for the annual quality assurance review of the CPE tracking system, the results of which will also be reported to the AIGA. On an on-going basis, the AIGA will continue to reinforce the commitment of the Office of Audits to the quality control program in staff meetings and ensure through in-house training that all personnel understand the components and importance of the program.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 6. Continuing Professional Education (CPE) Requirements

GAS 3.7 stipulates that the audit organization is responsible for establishing and implementing a program to ensure auditors meet the CPE requirements. The standard also requires that the organization document the completed education and training. According to GAS 3.6, each auditor responsible for planning, directing, or reporting on audits should complete, every 2 years, at least 80 hours of education and training which contributes to the auditor's professional proficiency. At least 20 of those 80 hours should be completed in any 1-year period and at least 24 of the 80 hours of training should be directly related to the government environment and to government auditing.

The two previous external peer reviews raised CPE compliance issues as reportable conditions. The ED OIG in February 1998 concluded that 3 of the 29 auditors examined had not met the necessary CPE requirements. In February 2002, the DOI OIG concluded that 17 of the 116 auditors tested did not satisfy the minimum CPE requirements.

We found that the Treasury OIG continued to experience problems in implementing a reliable system for recording and monitoring auditor CPE. For example, in our initial examination of auditor training records, we found that most of the training files were either incomplete or inaccurate. Also, training certificates or other acceptable documentation was lacking for up to one-half of the training courses reportedly taken. Of the 73 auditors we tested for CPE compliance from the updated database that Treasury OIG provided, we found compliance problems with 18 of the auditors. However, based on additional information provided by the Treasury OIG, we determined that all audit personnel tested met the minimum CPE requirements for the period January 1, 2001, through December 31, 2002.

Pinpointing why Treasury OIG was unable to satisfactorily implement a centralized tracking and monitoring system for CPE compliance is difficult. However, on October 15, 2003, the AIGA issued another memorandum instituting a number of procedural changes. Most importantly, the memorandum assigns the responsibility of CPE tracking to one individual in the Eastern Field Audit Office and provides specific guidance about what documentation would be considered acceptable before any entry should be made to the CPE database. Additionally, the AIGA will subject the CPE tracking and documentation process to an internal quality control review at least once each year.

While the new guidance is an improvement, we determined that the process could be further improved and clarified. For example, the GAO "Interpretation of Continuing Education and Training Requirements" provides that the audit organization's records should include such things as the location where the program was given, as well as a brief description of the program contents. However, the most recent Treasury OIG policy does not include this information as part of its required documentation.

Recommendations

The AIGA should:

17. Clarify the latest CPE policy guidance to fully conform to GAO requirements and ensure that the process covers all facets of training, such as in-house training and self-study certifications.
18. Require that the database administrator report to the AIGA at least quarterly on progress and any concerns.

Views of Responsible Official

Concur. We will ensure that our CPE policy outlined in the revised Audit Policy Manual conforms to Government Auditing Standards and GAO guidance. We also re-established our status with the National Association of State Boards of Accountancy (NASBA) as a registered CPE sponsor. As such, we demonstrated to NASBA that prior in-house training and attendant records conform to its quality standards, and future in-house training and attendant records will be subject to review by NASBA. The database administrator will also report to the AIGA at least quarterly on the CPE status and any concerns with meeting requirements and documenting CPE. The CPE tracking system will also be moved to a shared drive accessible by the AIGA and Directors so that CPE progress can be readily monitored on a continual basis. The target date for this action is September 30, 2004.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 7. Reporting

Treasury OIG audit reporting did not always comply with legal mandates governing issuance of audit reports, fully evaluate auditee comments presented in final reports, and fully address the scope of audit coverage. In addition, Treasury OIG's oversight of IPA work did not address a noncompliance with GAS reporting requirements.

Treasury OIG Audit Reports. We determined that for OIG-03-032, Treasury OIG did not comply with Section 38(k) of the Federal Deposit Insurance Act. Section 38(k) requires that if a deposit insurance fund incurs a material loss with respect to an insured depository institution, the IG for the appropriate Federal banking agency must complete a report to the agency within 6 months after it becomes apparent a material loss has been incurred. The Federal Deposit Insurance Corporation notified the Treasury OIG on April 26, 2002, of a material loss incurred at Hamilton Bank, NA. The OIG, however, did not complete its final report until December 17, 2002, approximately 7 weeks later than the law requires. We were advised that the report was delayed principally because Treasury OIG had to concurrently perform another material loss review, which was issued within the statutory time requirement, and the Hamilton review required that the audit team review 11 years of bank examination records involving complex supervisory issues in order to address the audit objectives.

An important aspect of quality audit reporting is for the auditors to ensure that auditee comments are obtained, properly evaluated, and appropriately presented in the final audit report. GAS 7.41 provides that advance comments should be objectively evaluated and recognized, as appropriate, in the report. In addition, GAS 7.42 states, "When the comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditor's opinion, valid, the auditors may state their reasons for rejecting them. Conversely, the auditors should modify their report if they find the comments valid." Treasury Directive 40-03, "Treasury Audit Resolution, Follow-Up, and Closure," requires that management state whether it agrees or disagrees with the audit recommendations. Section 456.16 of the Treasury audit manual also states that a complete management response typically must include a planned action and a date for the action.

We noted problems in three of the nine performance audits reviewed related to the presentation and evaluation of auditee comments in final reports. For example, for OIG-02-105, Treasury management provided written comments on each of the nine Treasury OIG audit recommendations but did not state whether it concurred with each recommendation. Treasury OIG concluded that management had concurred with six of the recommendations. However, our analysis of the responses for the six recommendations showed that Treasury management did not consider three of the recommendations appropriate. We, therefore, concluded that management had not concurred with six of the nine OIG recommendations.

We also noted that management responses to other Treasury OIG draft reports frequently did not state clearly whether management agreed or disagreed with the

OIG-recommended corrective actions. The pro forma letter the OIG uses to transmit draft reports does not specifically request a concurrence or nonconcurrence from management. The template for the transmittal letter references Treasury Directive 40-01, Part III—Audit Policies, which requires that the action official describe actions taken and planned, target dates for any incomplete corrective action, and reasons for any disagreement with the draft report. This directive does not specifically require that the action official concur or nonconcur with the OIG-recommended action. However, Treasury Directive 40-03 (paragraph 3), which is not referenced in the OIG transmittal letter, states that a primary step in the audit follow-up process is the issuance of Treasury management's response to include agreement or disagreement with audit findings and recommendations.

Compliance with GAS also requires that, in reporting the scope of the audit, auditors describe the depth and coverage of work conducted to accomplish the audit's objectives and the period the review covers. In one instance (OIG-03-004), we determined that the report did not clearly explain the scope because the report does not identify the period the audit covers. We determined that the auditors had adequately documented the scope in the working papers but, according to the audit team leader, the information was inadvertently not included in the final audit report.

IPA Oversight. In establishing an opinion on Treasury's fiscal year (FY) 2002 consolidated financial statements, the Treasury OIG relied on the work of 6 IPAs that issued 68 reports related to bureaus and other organizational components. We found that Treasury OIG oversight of IPA work performed could be improved in the following areas:

- Of 68 reports, 26 state that the work was performed under American Institute of Certified Public Accountants (AICPA) standards rather than GAS. The consolidated FY 2002 audit report states that Treasury OIG conducted the work in accordance with GAS. Because Treasury relied on IPA work in expressing an opinion on the financial statements, the IPA reports should have stated that the work was conducted in accordance with GAS. In addition, under the Inspector General Act, all of the OIGs are required to ensure that the work of non-Federal auditors is performed in accordance with GAS. While GAS includes AICPA standards by reference, GAS includes additional requirements related to areas such as working paper documentation, follow-up, and reporting. Treasury OIG officials stated that they ensured through their quality control reviews that IPA work was conducted in accordance with GAS. However, because reporting is one of the GAS standards, the IPA reports should state that the work was conducted in accordance with GAS.
- Of the six reports in our detailed sample, Treasury OIG issued two quality control reports (OIG-03-033 and OIG-03-064) that state IPA work was conducted in accordance with GAS, even though the IPA report states the work was conducted in accordance with the AICPA standards. (The 2 quality control reports relate to 1 IPA report, which is included in the 26 reports discussed in the previous

paragraph.) For OIG-03-033, we could not find any working papers that could establish the Treasury OIG determined that the IPA work was conducted in accordance with GAS. For OIG-03-064, we found a working paper that states the purpose of Treasury OIG's quality control review was to establish that the IPA complied with GAS and other requirements. However, the working paper did not contain sufficient detail to indicate that Treasury OIG auditors determined that the IPA had complied with GAS.

Recommendations

The AIGA should:

19. Ensure that material loss reviews are completed within the period specified in Section 38(k) of the Federal Deposit Insurance Act.
20. Ensure that all audit reports satisfy reporting requirements before issuance. Specifically,
 - a. For a management response to be considered acceptable, auditees should clearly state (1) concurrence, planned action, date for the action, or (2) nonconcurrence on each audit recommendation.
 - b. Evaluation of management comments should accurately determine whether the comments are responsive to the audit recommendations.
 - c. Final audit reports should contain a specific statement of the period the audit covers.
21. Work with Treasury officials to revise Treasury Directive 40-01 so that the directive is consistent with the requirements contained in Treasury Directive 40-03 regarding what constitutes an acceptable management response to an OIG recommendation.
22. Revise the template used for transmitting draft audit reports to include a statement reminding management that an acceptable management response requires management to clearly state its concurrence or nonconcurrence with OIG report recommendations.
23. For the 26 IPA reports, evaluate the lack of GAS reporting on the FY 2002 consolidated financial statement audit report and determine if any further reporting may be required.
24. Ensure that future reports in support of the consolidated financial statement audit state compliance with GAS.

Views of Responsible Official

Concur. We acknowledge the material loss review for the Hamilton Bank was issued after the statutory date, principally for the reasons described in your finding, which were unique to this audit. With the exception of the Hamilton Bank review, all other material loss reviews were issued on time.

With respect to Recommendation 20 and Recommendation 22, we will reiterate the requirements for management comments in our draft reports and reinforce during exit conferences Treasury policy for responding to draft reports with management. Directors were reminded to ensure that each future report include the period during which the audit took place. With respect to OIG-02-105, we believe that the management comments as a whole were responsive to the findings and recommendations given the subject matter of this forward-looking report. The issuing Director discussed with the Deputy AIGA before issuance the handling of the comments in the final report.

With respect to Recommendation 21, we will provide wording changes that will clarify the Treasury Directives when the Directives are revised. We believe our other actions will suffice in the interim.

With respect to Recommendation 23, we reviewed the 26 IPA reports cited in the finding and determined that no further reporting is required. We note, however, that of the 26 reports, 24 were for agreed-upon procedure engagements that were done solely to assist us in reporting on Treasury's consolidated financial statements. The results of the agreed-upon procedure engagements were for internal use and were not issued by our office as stand-alone reports. The other two IPA reports related to an examination of internal control at a Treasury bureau. That examination was not required by statute but performed in support of the Treasury consolidated financial statement audit. The IPA was required by its contract to perform the examination in accordance with Government Auditing Standards. Through our monitoring of IPA performance and review of IPA workpapers, we are satisfied that the work was performed in accordance with those standards. As provided in Recommendation 24, we will ensure that future IPA reports reference generally accepted government auditing standards.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 8. Audit Plan Documentation

GAS 6.19 requires that a written audit plan or guide should be prepared for each audit and that the document should be updated, as necessary, to reflect any significant changes made during the audit. Section 443.23 of Treasury's audit manual requires that the OIG directors approve the audit guide as well as any changes made during the audit.

Not all audits had approved audit guides or documented approvals for subsequent changes to the audit guides. For example, 3 (OIG-01-044, OIG-02-115, and OIG-03-009) of the 19 audits in our sample did not have an approved audit guide in the working papers. All three of the audits were IT audits. For OIG-02-115, Treasury OIG officials provided us with a copy of an audit guide they stated had been used during the audit. However, the document was not included in the working papers. Further, the audit manager on the audit decided to substantially depart from the planned approach based on preliminary findings obtained during the initial phase of the audit. The justification and rationale for this decision and the resulting changes to the audit guide were neither documented nor approved.

Of the 16 audits having an approved guide, 2 performance audits (OIG-02-105 and OIG-03-004) did not have approval for significant changes made to the audit objectives, scope, or methodology during the course of the audit. For OIG-02-105, the auditors did not complete work on one sub-objective, and the files did not contain the justification for the deviation or evidence of supervisory approval. The audit sub-objective was to determine if states had sufficient controls to detect fraudulent claims. In the audit report, Treasury OIG stated that it could not determine whether the internal review processes for the states provided sufficient assurance that unclaimed assets belonging to Federal agencies were adequately protected against fraud or abuse. However, the working papers did not explain why Treasury OIG could not answer this sub-objective and did not contain supervisory approval for the elimination of the work. On OIG-03-004, the auditors did not perform steps specified in the audit guide and reduced the audit scope. As in the previous example, the working papers did not contain an explanation for the changes and evidence of Treasury OIG management approval. Although we agree that Treasury OIG's decision to proceed as it did in conducting the audit was sound, we believe that management's rationale for deviating from the audit plan should be documented in the working papers.

Recommendation

25. The AIGA should ensure that each audit has an approved audit guide in the working papers, and that any substantive changes made to an audit guide are adequately documented with the approval of OIG management.

Views of Responsible Official

Concur. We will include this requirement in the revised Audit Policy Manual and ensure that personnel are trained on the revised manual. OIG-03-004 was not a situation where the audit team reduced the audit scope. We issued the report as an interim audit report because of the significance of the results for one of the audit objectives. We do agree, however, that the decision to issue an interim report should have been more clearly documented in the working papers.

NASA OIG Comments

The actions are responsive to the recommendation.

Finding 9. Quality Control Checklist for Performance Audits

Section 443.23 of the Treasury OIG audit manual states that an important quality control tool used in OIG performance audits is the “Checklist for Performance Audits” (Appendix 4400-A). The checklist helps ensure that the audit was conducted in accordance with the GAS. A checklist must be completed for each audit. Section 443.29 requires that OIG directors ensure the checklist was completed prior to signing an audit report or sending it to Headquarters for signature.

Of the 19 audits reviewed, 10 did not contain any evidence in the working papers that the required checklist had been prepared.

- Of the 10, 9 were IT audits (OIG-01-034, OIG-01-044, OIG-02-015, OIG-02-029, OIG-02-115, OIG-03-002, OIG-03-009, OIG-03-061, and OIG-03-070).
- Of the 10, 1 was a financial statement audit (OIG-03-015).

On a performance audit (OIG-03-004), the checklist was not completed until almost 3 months after the final report was issued, after an internal quality review noted that a completed checklist was not in the working papers.

Recommendation

26. The AIGA should establish the management controls that ensure audit directorates complete the “Checklist for Performance Audits” on each audit prior to issuing the final report as required by Treasury OIG policy.

Views of Responsible Official

Concur. Directors were reminded to ensure the checklist is completed. This requirement will be re-emphasized in the revised Audit Policy Manual. Treasury OIG internal quality reviews will include a procedure for determining whether the Checklist was completed for the selected audits.

NASA OIG Comments

The actions are responsive to the recommendation.

Finding 10. Auditor Independence Certifications

GAS 3.11 states that in all matters relating to the audit work, the audit organization and the individual auditors should be free from personal and external impairments. Treasury OIG implements this requirement through Section 432.11 of the audit manual, which requires that each auditor participating in an audit must complete a “Certificate of Auditor Independence.”

Of the 19 audits reviewed, 12 either were missing the certificates entirely or did not have completed certificates on file. For example:

- Four IT audits (OIG-01-044, OIG-02-029, OIG-02-115, and OIG-03-009) did not have any evidence in the working papers that the required independence certification had been prepared and signed by each of the employees working on these audits.
- Eight audits contained incomplete certifications. Overall, a total of 14 auditors and 7 referencers did not complete the required certificates.
 - Two IT audits (OIG-03-058 and OIG-03-061) excluded a total of six auditors and a referencer from the certification process.
 - Four performance audits (OIG-02-082, OIG-02-098, OIG-02-105, and OIG-03-004) excluded a total of four auditors and four referencers from the certificates.
 - Two financial audits (OIG-03-014 and OIG-03-037) excluded the referencers from the certificate. In addition, the certificate prepared for the consolidated financial statement audit omitted four auditors directly involved in the audit work.

Although Treasury OIG policy requires that each participating auditor complete a certificate, the policy does not specifically include independent referencers. Treasury OIG should strengthen their oversight of certification compliance and modify their policy to state that referencers should complete the independence certification.

Recommendations

The AIGA should:

27. Ensure that all personnel charging time to an audit assignment complete the required “Certificate of Auditor Independence.”
28. Revise the audit manual to clearly require that the referencer must also complete the required independence certification.

Views of Responsible Official

Concur. Directors were reminded about the requirement for the auditor independence certificates and the need for referencers to complete the certification. The revised Audit Policy Manual will clarify this requirement with respect to referencers.

NASA OIG Comments

The actions are responsive to the recommendations.

Finding 11. Documentation Requirements for Working Papers

GAS 6.64 states that working papers should contain the objectives, scope, and methodology and include any sampling criteria used. The Treasury OIG audit manual (Section 441.11) further requires that all working papers should be complete and accurate; stand on their own; be clear, concise, and understandable; be legible and neat; be relevant; use a simple and understandable indexing system; be properly safeguarded; and be reviewed timely.

Treasury OIG working papers did not always contain the required elements. For example:

Objectives/scope/methodology. Four IT audits (OIG-01-034, OIG-02-115, OIG-03-009, and OIG-03-058) and one performance audit (OIG-03-024) had working papers that were missing the purpose, source, scope, objectives, methodology, conclusions, or date prepared. For example, six entire working paper sections were missing the working paper purpose, source, and scope and conclusion statements for OIG-03-058.

Accuracy and Completeness:

- Of the 10 IT audits reviewed, 7 had problems with working paper accuracy and completeness. For example, six IT audits (OIG-01-034, OIG-01-044, OIG-02-015, OIG-02-029, OIG-02-115, and OIG-03-009) did not document the formal exit conferences held with the auditee, and one IT audit (OIG-02-115) did not document the decisions reached at the report conference.
- Of the six performance audits reviewed, three (OIG-02-082, OIG-02-105, and OIG-03-024) had problems with working paper accuracy and completeness. For example, one audit was missing working paper summaries and another did not document how three audit recommendations that were nonconcurrences were resolved, and did not document discussions held with Treasury management regarding substantive changes made to the recommendations after the exit conference was held.
- Of the three financial statement audits reviewed, one (OIG-03-037) did not adequately document whether certain Federal requirements were applicable to the entity audited. For example, compliance with the Federal Managers Financial Integrity Act (FMFIA) is reviewed only at the Department level. On this same audit, the working papers also did not document the fact that audit testing was not performed through the system and that the testing requirements outlined in the Federal Information System Controls Audit Manual (FISCAM) did not apply. The audit manager explained that FMFIA and FISCAM did not apply to the Exchange Stabilization Fund based on OMB Bulletin 01-02, but the determination was not documented in the working papers. We believe the determination that FMFIA and FISCAM were not applicable was a significant conclusion that should have been documented in the working papers. GAS 4.36 states that

working papers “allow for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors’ significant conclusions and judgments.”

Indexing system. Of the IT audits reviewed, four (OIG-01-044, OIG-02-015, OIG-02-029, and OIG-03-009) did not have a standard indexing system that organized the working papers in a logical manner.

We noted a best practice for the financial statement audits. Treasury OIG used an Auditor Sign-Off sheet that provided the initials on a single page of each auditor involved in the audit. This document made it easy to identify the preparer and reviewer of the working papers.

Recommendation

29. The AIGA should ensure that the working papers contain the required elements and adequately chronicle any actions taken and decisions reached during an audit.

Views of Responsible Official


Concur. Directors have re-emphasized to personnel the required elements for working papers as well as chronicling any actions or decisions. The requirements will be covered again during training on the revised Audit Policy Manual.

NASA OIG Comments

The actions are responsive to the recommendation.

If you have any questions, please contact Mr. Lee. T. Ball, Quality Control Director, at (757) 864-3269, or me at (202) 358-2572.

Sincerely,



David M. Cushing
Assistant Inspector General for Auditing

3 Enclosures

1. Letter to Department of Treasury Acting Inspector General (w/o Enclosure 2)
2. Reports Reviewed
3. Department of Treasury OIG Response to Draft Letter of Comments

cc:

Dennis S. Schindel

Enclosures 1 and 2 are located at the beginning of this document.

Department of Treasury OIG Response to the Draft Letter of Comments



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 10, 2004

Mr. David Cushing
Assistant Inspector General for Auditing
Office of Inspector General
National Aeronautics and Space Administration
Washington, D.C. 20546-0001

Dear Mr. Cushing:

Thank-you for the opportunity to comment on your draft report dated April 16, 2004, on the results of your office's external peer review of the Department of Treasury Office of Inspector General (OIG), Office of Audit. We also wish to express our appreciation for the professionalism your team demonstrated in conducting this review.

We concur with the reportable conditions and recommendations in your draft Letter of Comments.

In this regard, I would like to highlight one of our most comprehensive corrective actions. I have designated a team, lead by a senior audit Director, to comprehensively update our Audit Policy Manual. This action is to be completed no later than September 30, 2004, and I consider this a top priority of my office. The revised Manual will address all the observations in your report, as well as the 2003 revisions to the *Government Auditing Standards*.

Comments and planned actions for this and the other reportable conditions follow:

Finding 1. OIG Policy Manual Updates and Implementation

Recommendations: The AIGA should:

1. Designate a senior management official to maintain and distribute the audit manual.
2. Direct that the audit manual be updated to incorporate all policy guidance issued since 1998 via e-mail (for example, current referencing policy and procedures) and to correct all other errors and omissions.
3. Ensure that future Treasury OIG policies are made available to all employees via the shared network drive.

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Treasury OIG Response:

Concur. Our Audit Policy Manual will be updated and issued by September 30, 2004. It will include procedures for incorporating changes to policy guidance upon AIGA approval. Staff will have access to the Manual via the shared network drive.

Finding 2. Evidence Used To Support Audit Findings

Recommendations: The AIGA should:

4. Ensure that the physical, documentary, testimonial, and analytical evidence supports the significant conclusions and judgments of the auditor, and that report findings are documented in the working papers in a clear, logical manner.
5. Review the evidence problems identified for the three IT reports and identify an appropriate course of action, such as indexing and referencing the reports or conducting new audits.
6. Accelerate plans for performing an internal review of the IT Directorate with a major focus on the quality of evidence used to support audit findings.

Treasury OIG Response:

Concur. Your draft report has been shared with our managers, and I have discussed the issues with them on several occasions. The updated Audit Policy Manual will expand our current internal quality reviews for program audits to include IT audits and other work performed by our office. The results of these reviews will be reported directly to the AIGA. We will consider conducting follow-up audits in the subject areas of the three cited IT reports as part of our planning process.

Finding 3. Supervisory Review of Working Papers

Recommendation:

7. The AIGA should ensure that all working papers are timely reviewed by a supervisor and that management's expectations for what constitutes a timely review of the working papers are clearly communicated to all of the audit staff.

Treasury OIG Response:

Concur. The updated Audit Policy Manual will set forth our expectations for what constitutes timely supervisor review. In brief, we expect all working papers to have been reviewed by certain critical milestones in the audit (e.g., end of planning/survey prior to fieldwork, end of fieldwork prior to reporting, prior to final report issuance). Adherence to these expectations will

be looked at as part of internal quality reviews of selected audits. Supervisory review requirements will also be reinforced through staff meetings.

Findings 4. Independent Referencing and Cross-Indexing of Audit Reports

Recommendations: The AIGA should:

8. Ensure that draft reports are properly cross-indexed to the supporting working papers prior to the independent referencing process, independently referenced before OIG Directors sign or transmit the reports to Headquarters for signature, and referencer notes are cleared before the draft report is signed or transmitted to Headquarters for signature prior to final report issuance.
9. Ensure that substantive changes to the final report are cross-indexed and referenced prior to final report issuance.
10. Ensure that referencers receive sufficient training.
11. Review the final reports identified in this finding as having cross-indexing or referencing concerns and determine an appropriate course of action. Alternatives include cross-indexing and referencing the reports or performing another audit of the subject matter in the near future.

Treasury OIG Response

Concur. Recommendations 8 and 9 are consistent with our current policy and I have reinforced these requirements with our Directors during staff meetings. As an additional control, I have directed that the report referencer be from a different audit directorate than the directorate that prepared the report unless prior approval is received and rationale for approval appropriate. I have also instructed our Directors to ensure all referencer comments are resolved before signing out the draft and final report, or submitting the report for my signature. These controls will be included in our revised Audit Policy Manual. We will also provide training toward that end. Our Eastern Field Audit Office is currently developing an Office of Audit-wide training course on referencing. We have also reviewed the reports identified in this finding. Going forward, we believe the additional controls we have implemented will prevent a reoccurrence of the conditions noted in this finding. We will also consider the subject matter of the cited audits for follow up at those bureaus still with Treasury as part of our audit planning process.

Finding 5. Internal Quality Assurance Reviews

Recommendations: The AIGA should:

12. Re-establish a senior management official responsible for the internal review function.

13. Ensure that the internal review program possesses the characteristics contained in Appendix I of the PCIE peer review guide, including a justification for implementing a less extensive internal review program than that advocated by the PCIE Audit Committee.
14. Modify the interim measure as necessary to address the concerns raised in this report and formally incorporate the measure into the Treasury OIG audit manual, including referencing or attaching the internal review checklist to the final guidance.
15. Clarify management expectations for the annual quality assurance review of the CPE tracking system.
16. Ensure that all audit staff understand the important role of the internal review process in the overall OIG quality control system and are committed to implementing an effective program.

Treasury OIG Response

Concur. As noted in your finding, significant Treasury OIG resources were divested in March 2003 and at this time we are unable to dedicate a senior management official to the internal review function. As our organization grows in the future, we will consider re-establishing this position. That being said, we plan to continue our sampling of audits for internal quality review, to include IT audits. The AIGA will select the audits to be reviewed and the results will be reported to the AIGA. We will ensure that applicable PCIE guidance is followed and appropriate justifications for our internal review program, where necessary, are included in the revised Audit Policy Manual. The revised Audit Policy Manual will also prescribe the procedures for the annual quality assurance review of the CPE tracking system, the results of which will also be reported to the AIGA. On an on-going basis, the AIGA will continue to reinforce the Office of Audit's commitment to the quality control program in staff meetings, and ensure through in-house training that all staff understand the components and importance of the program.

Finding 6. Continuing Professional Education (CPE) Requirements

Recommendations: The AIGA should:

17. Clarify the latest CPE policy guidance to fully conform with GAO requirements and ensure that the process covers all facets of training, such as in-house training and self-study certifications.
18. Require that the database administrator report to the AIGA at least quarterly on progress and any concerns.

Treasury OIG Response

Concur. We will ensure that our CPE policy outlined in the revised Audit Policy Manual conforms with *Government Auditing Standards* and GAO guidance. We also re-established our status with the National Association of State Boards of Accountancy (NASBA) as a registered CPE sponsor. As such, we demonstrated to NASBA that prior in-house training and attendant records conform to its quality standards, and future in-house training and attendant records will be subject to review by NASBA. The database administrator will also report to the AIGA at least quarterly on the status and any concerns with meeting requirements and documenting CPE. The CPE tracking system will also be moved to a shared drive accessible by the AIGA and Directors so that CPE progress can be readily monitored on a continual basis. The target date for this action is September 30, 2004.

Finding 7. Reporting

Recommendations: The AIGA should:

19. Ensure that material loss reviews are completed within the period specified in Section 38(k) of the Federal Deposit Insurance Act.
20. Ensure that all audit reports satisfy reporting requirements before issuance. Specifically,
 - a. Auditees should clearly state (1) concurrence, planned action, date for the action, or (2) nonconcurrence on each audit recommendation for a management response to be considered acceptable.
 - b. Evaluation of management comments should accurately determine whether the comments are responsive to the audit recommendations.
 - c. Final audit reports should contain a specific statement of the period the audit covers.
21. Work with Treasury officials to revise Treasury Directive 40-01 so that the directive is consistent with the requirements contained in Treasury Directive 40-03 regarding what constitutes an acceptable management response to an OIG recommendation.
22. Revise the template used for transmitting draft audit reports to include a statement that reminds management that an acceptable management response requires that management clearly state its concurrence or nonconcurrence with OIG report recommendations.

23. For the 26 IPA audit reports, evaluate the lack of GAS reporting on the FY 2002 consolidated financial statement audit report and determine if any further reporting may be required.
24. Ensure that future reports in support of the consolidated financial statement audit state compliance with GAS.

Treasury OIG Response

While we concur with the recommendations, we have several general comments to this finding. First, we acknowledge the Hamilton Bank material loss review was issued after the statutory date, principally for the reasons described in your finding, which were unique to this audit. Having said that, except for Hamilton, all of our other material loss reviews were issued on time.

Second, we agree with the observation that management comments were not always complete in accordance with Treasury policy. With respect to Recommendations 20 and 22, we will reiterate the requirements for management comments in our draft reports, and reinforce Treasury policy for responding to draft reports with management during exit conferences. With respect to Recommendation 21, we will provide wording changes to clarify the Treasury Directives when these Directives are revised. We believe our other actions will suffice in the interim. That being said, it should be noted that despite our best efforts, management comments do not always include fully defined action plans and estimated completion dates. We do work with management to obtain this information and when appropriate, note in our finals report where the information must still be provided. With respect to OIG-02-105, as discussed with the peer review team, we believe that the management comments as a whole were responsive to the findings and recommendations given the subject matter of this forward-looking report. From a standpoint of quality control, it should also be noted that the issuing Director discussed the handling of the comments in the final report with the DAIGA before issuance.

Third, with respect to Recommendation 23, we reviewed the 26 IPA reports cited in the finding and determined that no further reporting is required. It should be noted that 24 of the 26 reports were for agree-upon procedures (AUP) engagements. As discussed with the peer review team, the 24 engagements were done solely to assist us in reporting on the Treasury Department's consolidated financial statements. The results of the AUP engagements were strictly for internal use and were not issued by our office as stand alone reports. The other 2 IPA reports were related to an examination of internal control at a Treasury bureau. This examination was not required by statute but was performed in support of the Treasury consolidated financial statement audit. The IPA was required by the contract to perform the examination in accordance with *Government Auditing Standards*. Through our monitoring of the IPA's performance and review of the IPA's workpapers, we are satisfied that the work was performed in accordance with those standards. That being said, as you recommend (Recommendation 24), we will ensure that future IPA reports reference generally accepted government auditing standards.

Our Directors have been reminded to ensure future reports include the audited period.

Finding 8. Audit Plan Documentation

Recommendation:

25. The AIGA should ensure that each audit has an approved audit guide in the working papers, and that any substantive changes made to an audit guide are adequately documented with the approval of OIG management.

Treasury OIG Response

Concur. This requirement in our current manual will be carried over into our revised manual. Staff will be reminded about the requirement when trained on the revised Manual. It should be noted that for OIG-03-004, it was not a situation where the audit team reduced the audit scope. We issued this as an interim audit report due to the significance of the results for one of the audit objectives. We do agree, however, that this decision to issue an interim report should have been more clearly documented in the workpapers.

Finding 9. Quality Control Checklist for Performance Audits

Recommendation:

26. The AIGA should establish the management controls that ensure audit directorates complete the "Checklist for Performance Audits" on each audit prior to issuing the final report as required by Treasury OIG policy.

Treasury OIG Response

Concur. Our Directors have been reminded to ensure the Checklist is completed. This requirement will be re-emphasized again in our revised Audit Policy Manual. Our internal quality reviews will include a procedure to determine whether the Checklist was completed for the selected audits.

Finding 10. Auditor Independence Certifications

Recommendations: The AIGA should:

27. Ensure that all personnel charging time to an audit assignment complete the required "Certificate of Auditor Independence."
28. Revise the audit manual to clearly require that the referencer must also complete the required independence certification.

Treasury OIG Response

Concur. Our Directors have been reminded about the requirement for the auditor independence certificates and the need for referencers to complete the certification. Our revised Audit Policy Manual will clarify this requirement with respect to referencers.

Finding 11. Documentation Requirements for Working Papers

Recommendation:

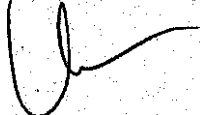
29. The AIGA should ensure that the working papers contain the required elements and adequately chronicle any actions taken and decisions reached during an audit.

Treasury OIG Response

Concur. Our Directors have re-emphasized these requirements with staff, and they will be covered again when we train staff on the revised Audit Policy Manual.

Again, we appreciate the efforts and observations by your peer review team. If you have any questions, please contact me at (202) 927-5400, or Robert A. Taylor, Deputy Assistant Inspector General for Program Audit, at (202) 927-5792.

Sincerely,



Marla A. Freedman
Assistant Inspector General for Audit