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8601 Adelphi Road, College Park, Maryland 20740-6001

May 27, 2010

Phillip M. Heneghan
Inspector General
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

Subject: Audit Report #10-09: System Review Report on the U.S. International Trade Commission's Office of Inspector General Audit Organization

Dear Inspector General Heneghan:

Attached is the official System Review Report on the U.S. International Trade Commission's Office of Inspector General Audit Organization conducted in accordance with *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included as Enclosure 2 with excerpts incorporated into the relevant sections of the report.

We agree with your proposed corrective action to the recommendations. We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review.

A handwritten signature in cursive script, appearing to read "Paul Brachfeld".

Paul Brachfeld
Inspector General

Attachment



May 27, 2010

AUDIT REPORT #10-09

Mr. Philip M. Heneghan
Inspector General
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Mr. Heneghan:

We were tasked with reviewing the system of quality control for the audit organization of the International Trade Commission Office of Inspector General (ITC OIG) in effect for the year ended September 30, 2009. A system of quality control encompasses an OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. OIG's are responsible for designing a system of quality control and complying with it to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and ITC OIG's compliance therewith based on our review.

However, we determined that we could not express an opinion of the audit organization of the ITC OIG because the audit organization has not conducted any audits in the past five years. Based on the Government Accountability Office's *Government Auditing Standards*, the external peer review requirement is effective within 3 years from the date an audit organization begins field work on its first assignment in accordance with GAGAS for both financial audit practices and performance audit practices. Therefore, we do not express an opinion on the design of or compliance with the system of quality control.

Over the past four years, the audit organization consisted of Inspectors General appointed by the ITC Chairman from within ITC management on six month contracts. A permanent Inspector General, from outside ITC, was hired in December 2009 and is in the process of putting in place a system of quality control for the audit organization operations. A senior analyst was hired in March 2010 to audit information technology systems.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed ITC personnel and obtained an understanding of the nature of

the ITC OIG audit organization. In addition, we applied certain limited procedures in accordance with guidance established by CIGIE related to ITC OIG's monitoring of audit work performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether ITC OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on ITC OIG's monitoring of work performed by IPAs. Enclosure 1 to this report identifies the offices of the ITC OIG that we visited and the engagements that we reviewed.

In performing our review, we determined the ITC OIG does not have a system of quality control for the ITC OIG's audit organization. In brief, the ITC OIG does not have written policies and procedures; performed no audits; and did not take appropriate steps to assure that any work performed by non-Federal auditors complies with GAGAS.

The comments provided below will assist the audit organization in implementing a system of quality control for its audits and attestation engagements. The system of quality control encompasses the OIG's leadership, emphasis on performing high-quality work, and the OIG's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.

Finding 1. Policies and Procedures – Not Documented

Appropriate policies and procedures have not been documented and put in place for use by the ITC OIG. According to GAGAS, each OIG must document its quality control policies and procedures and communicate those policies and procedures to its personnel. OIGs should also analyze and summarize the results of their monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. With regards to monitoring, GAGAS states that reviews of the work and the report that are performed as part of supervision are not monitoring controls when used alone. However, these types of pre-issuance reviews may be used as a part of the annual analysis and summary.

OIG quality control and assurance programs should address:

- a. Leadership responsibilities for quality in the audit organization
 - Annual audit plans
- b. Independence and legal and ethical requirements
- c. Initiation, acceptance, and continuance of audit and attestation engagements
 - Method to track audits (e.g., audits scheduled, cancelled, terminated, or completed during the period)
 - Method to track and follow-up on recommendations to ensure corrective action was taken.

- d. Human resources
 - Hiring procedures
 - Method to track continuing professional education for each employee
 - Organization chart; a staff roster (including series and grades); professional designations; advanced degrees or special skills
- e. Audit and attestation engagement performance, documentation, and reporting
 - General Standards
 - Fieldwork Standards
 - Reporting Standards
 - Standards specific to financial statement audits, attestation engagements and performance audits
 - Audit work performed by non-Federal auditors, such as Independent Public Accounting Firms
- f. Monitoring of quality, which is a regular assessment of audit and attestation engagement work to provide management with reasonable assurance that the policies and procedures related to the system of quality control are appropriately designed and operating successfully. The monitoring process should result in internal quality assurance review reports at least annually. This monitoring process should evaluate:
 - Adherence to professional standards and legal requirements
 - The design of the internal control system
 - Whether staff is complying with quality control policies and procedures.

Recommendation – The ITC OIG should develop written policies and procedures designed to provide reasonable assurance that GAGAS and other pertinent requirements are met.

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 2. Competence – No Records of Continuing Professional Education and Training

The OIG did not have documentation supporting continuing professional education and training for the Inspectors General, the only audit staff on board, who oversaw the audits that were contracted out to independent public accounts.

Improving their own competencies and meeting CPE requirements are primarily the responsibilities of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed.

Now that the ITC OIG is expanding it is important to have a system in place to track continuing professional education and training. Without sufficient continuing professional education and training, and documentation thereof, it is difficult to assess whether the audit staff collectively

possess adequate professional competence for the tasks required and individually whether an auditor possess the ability to make sound professional judgments.

Recommendation – The ITC OIG should develop a method to maintain documentation showing continuing professional education and training for auditors to determine and ensure they have met the GAGAS requirements.

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 3. Quality Control – No Records of Tracking Audits

The ITC OIG has no audit tracking system indicating audits scheduled, cancelled, terminated, and completed.

GAGAS prescribes policies and procedures for the initiation, acceptance, and continuance of audit and attestation engagements should be designed to provide reasonable assurance that the audit organization will undertake audit engagements only if it can comply with professional standards and ethical principles and is acting within the legal mandate or authority of the audit organization.

Recommendation – The ITC OIG should develop a method to track audits (e.g., audits scheduled, cancelled, terminated, or completed during the period).

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 4. Reporting Requirements – No Records of Tracking Audit Recommendations

The ITC OIG has no audit recommendation tracking system indicating the status of recommendations. As the ITC OIG completes audit reports, the ITC OIG should have a method to track and follow-up on recommendations to ensure corrective action was taken.

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports, including a description of the recommendations for corrective action made with respect to significant problems, abuses, or deficiencies and the identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.

Having a method of tracking and following up on recommendations will assist in complying with semi-annual reporting requirements.

Recommendation – The ITC OIG should develop a method to track and follow-up on recommendations to ensure corrective action was taken.

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 5. Quality Control – No Records of Communicating Prior External Peer Review To Appropriate Oversight Bodies

The ITC OIG was not able to find any records of communicating the prior external peer review report to appropriate oversight bodies.

GAGAS states that an external audit organization should make its most recent peer review report publicly available. For example, by posting the peer review report on an external Web site or to a publicly available file designed for public transparency of peer review results. If neither of these options is available to the audit organization, then it should use the same transparency mechanism it uses to make other information public, and also provide the peer review report to others upon request. Internal audit organizations that report internally to management should provide a copy of the external peer review report to those charged with governance. Government audit organizations should also communicate the overall results and the availability of their external peer review reports to appropriate oversight bodies. This requirement does not include the letter of comment.

Recommendation – The ITC OIG should maintain records supporting compliance with GAGAS including communication of external peer reviews to appropriate oversight bodies.

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 6. Agency Program Audits – Not Performed

Agency program audits were not being conducted. We believe it is relevant to note that the ITC OIG had insufficient resources to accomplish its audit plan or routinely cover its audit universe and had not actually conducted any audits over the past four years. Rather, the ITC OIG oversaw audits contracted out to IPAs over the last several years.

OIGs have responsibility to report on current performance and accountability and to foster good program management to ensure effective government operations. The Inspector General Act of 1978 (IG Act), as amended, created the OIGs to conduct, supervise, and coordinate audits relating to the programs and operations of their agencies.

Without additional audit staff, the OIG may not be able to accomplish its basic OIG mission of delivering quality audits. We acknowledge ITC OIG is in the process of hiring an additional auditor.

Recommendation – The ITC OIG should perform audits relating to the programs and operations of ITC in accordance with GAGAS.

Views of Responsible Official

The ITC OIG agrees with the finding and recommendation.

Finding 7. IPA Monitoring – Adequacy of the IPA Monitoring

ITC OIG did not adequately monitor IPA work. Section 4(b) of the Inspector General Act of 1978, as amended (5 U.S.C. Appendix 3) requires IGs to take appropriate steps to assure that any work performed by non-Federal auditors complies with GAGAS.

GAO/PCIE FAM 650 provides guidance in making the judgments necessary for the OIG's to use the work of other auditors and specialists. It also provides guidance for determining the extent of the review and maintenance of supporting documents by the OIG for determining the contractor's compliance with GAGAS. The Financial Statement Audit Network (FSAN) of the Federal Audit Executive Committee of the Council of Inspectors General on Integrity and Efficiency (CIGIE) has a monitoring and oversight tool based on FAM 650 guidance that can be used to facilitate the oversight efforts of OIG.

ITC OIG did not perform adequate procedures to ensure that the work of the IPA adhered to GAGAS. We noted that the ITC OIG for the contracted audit of the ITC Fiscal Year 2008 financial statements did not determine the degree of responsibility the OIG accepted with respect to using the work of the IPA. We noted that the monitoring files did not contain a strategy and plan for monitoring and accepting the IPA's work based on the degree of responsibility the OIG accepted with respect to using the work of the IPA. There was no evidence that the ITC OIG reviewed the:

- Contract deliverables for consistency with the contract requirements and GAGAS.
- IPA's audit documentation and reports for adherence with GAGAS.
- There is no evidence the ITC OIG monitored adherence to milestones.

In addition, the OIG did not consider the IPA's system of quality control as no description of the IPA's system of quality control was included in their proposal. Also there were no references from other clients with the IPA's proposal.

If the OIG does not understand the IPA's system of quality control or contact references from other clients, the OIG cannot in good faith ensure the IPA is capable of performing an audit in accordance with GAGAS. The information, if provided, could have impacted the scope of the OIG's monitoring activities. If the work of others is not adequately monitored, there is no assurance the IPA's conducted their work in accordance with GAGAS or the contract.

Recommendation – The ITC OIG should use the GAO/PCIE FAM 650 as guidance in making the judgments necessary for the OIG to use the work of other auditors and specialists and for determining the extent of the review and maintenance of supporting documents for determining the contractor's compliance with GAGAS.

Views of Responsible Office

The ITC OIG agrees with the finding and recommendation.



Paul Brachfeld
Inspector General
National Archives and Records Administration

(Enclosures)

Enclosure 1

Peer Review Scope and Methodology**Scope and Methodology**

We determined that we could not express an opinion of the audit organization of the International Trade Commission OIG at this time because the audit organization has not conducted any audits in the past five years. Based on the Government Accountability Office's *Government Auditing Standards*, the external peer review requirement is effective within 3 years from the date an audit organization begins field work on its first assignment in accordance with GAGAS for both financial audit practices and performance audit practices.

We reviewed the financial statement audit monitoring activities covering the FY 2008 financial statements that were performed under contract by Brown & Company, Certified Public Accounts, Professional Limited Liability Company. Our peer review was limited to audits performed by others completed in accordance with GAO *Government Auditing Standards*. During the period under review, October 1, 2008 through September 30, 2009, the ITC OIG issued two Semiannual Reports to Congress, which included a description of one audit.

The peer review team, consisting of the Assistant Inspector General for Audits (AIGA) and one staff auditor from the NARA OIG interviewed ITC OIG staff members. Our review was conducted in accordance with the guidelines established by the Council of the Inspectors General on Integrity and Efficiency Audit Committee.

Fieldwork was performed during March 2010 at the ITC OIG which is located in Washington, DC.

Reviewed Monitoring Files of ITC OIG for Contracted Engagements

| <u>Report Date</u> | <u>Report Title</u> |
|--------------------|---|
| November 14, 2008 | Independent Auditor's Report of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2008 and 2007 |

OFFICE OF INSPECTOR GENERAL



Enclosure 2

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

Via Electronic Transmission

May 25, 2010

OIG-HH-009

Paul Brachfeld
Inspector General
National Archives and Records Administration
8601 Adelphi Road
College Park, Maryland 20740-6001

Subject: Management Response on Draft Audit Report #10-09: System Review Report on the U.S. International Trade Commission's Office of Inspector General Audit Organization

Dear Inspector General Brachfeld:

This memorandum is in response to the subject draft audit report dated May 12, 2010. As the newly appointed Inspector General at the USITC, I have found the results of this audit to be beneficial in identifying the areas that require my immediate attention. I agree with the seven findings and recommendations in the report and have decided to take thirteen specific actions to fully implement your recommendations. Detailed comments on these actions including status, and target completion dates are attached. The OIG is committed to establishing a quality audit program with strong internal controls. Implementing your recommendations will provide us with a solid foundation to ensure we perform quality audit work.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff during the course of the audit. If you have any questions regarding our response, please feel free to contact me on (202) 205-2210.

A handwritten signature in cursive script, reading "Philip M. Heneghan".

Philip M. Heneghan
Inspector General

Attachment: Inspector General Action Plan

INSPECTOR GENERAL ACTION PLAN

NARA Audit Report Number 10-09

System Review Report on the USITC's Office of Inspector General Audit Organization

Recommendation 1

The ITC OIG should develop written policies and procedures designed to provide reasonable assurance that GAGAS and other pertinent requirements are met.

| Management Decision | Status | Target Completion Date |
|--|-------------|------------------------|
| The ITC OIG will develop written policies to provide reasonable assurance that GAGAS and other pertinent requirements are met. | Completed | 5/28/2010 |
| The ITC OIG will develop written procedures to support the policies. | In progress | 7/30/2010 |

Recommendation 2

The ITC OIG should develop a method to maintain documentation showing continuing professional education and training for auditors to determine and ensure they have met the GAGAS requirements

| Management Decision | Status | Target Completion Date |
|---|-----------|------------------------|
| The ITC OIG will develop a policy to ensure auditors have met the GAGAS training requirements. | Completed | 5/28/2010 |
| The ITC OIG will develop a system to maintain documentation to track CPE training for auditors. | Completed | 5/28/2010 |

Recommendation 3

The ITC OIG should develop a method to track audits (e.g., audits scheduled, cancelled, terminated, or completed during the period).

| Management Decision | Status | Target Completion Date |
|--|-----------|------------------------|
| The ITC OIG will develop a procedure to track audits scheduled, cancelled, terminated, or completed during the period. | Completed | 5/28/2010 |
| The ITC OIG will develop a system to track audits as required in the procedure. | Completed | 5/28/2010 |

Recommendation 4

The ITC OIG should develop a method to track and follow-up on recommendations to ensure corrective action was taken.

| Management Decision | Status | Target Completion Date |
|--|-----------|------------------------|
| The ITC OIG will develop a procedure to track, follow-up and document when corrective action was taken on recommendations. | Completed | 5/28/2010 |
| The ITC OIG will develop a system to follow-up on recommendations in accordance with the procedures. | Completed | 5/28/2010 |

Recommendation 5

The ITC OIG should maintain records supporting compliance with GAGAS including communication of external peer reviews to appropriate oversight bodies.

| Management Decision | Status | Target Completion Date |
|--|-------------|-----------------------------------|
| The ITC OIG will develop a policy to maintain records supporting compliance with GAGAS. | Completed | 5/28/2010 |
| The ITC OIG will post the results of this audit on our public website within 3 working days after receipt of final report. | In-progress | Receipt of final report + 3 days. |

INSPECTOR GENERAL ACTION PLAN

NARA Audit Report Number 10-09

System Review Report on the USITC's Office of Inspector General Audit Organization

| | | |
|---|---------------|-----------------------------------|
| The ITC OIG will transmit a copy of this audit report to the appropriate oversight bodies within 3 working days of receipt of the final audit report. | In-progress | Receipt of final report + 3 days. |
| Recommendation 6 | | |
| <i>The ITC OIG should perform audits relating to the programs and operations of ITC in accordance with GAGAS.</i> | | |
| Management Decision | Status | Target Completion Date |
| The ITC OIG will include audits relating to the programs and operations of ITC in the FY2011 audit plan. | In-progress | 9/30/2010 |
| Recommendation 7 | | |
| <i>The ITC OIG should use the GAO/PCIE FAM 650 as guidance in making the judgments necessary for the OIG to use the work of other auditors and specialists and for determining the extent of the review and maintenance of supporting documents for determining the contractor's compliance with GAGAS.</i> | | |
| Management Decision | Status | Target Completion Date |
| The ITC OIG will develop procedures to use GAO/PCIE FAM 650 as guidance when monitoring the work of an IPA to determine the extent of their compliance with GAGAS. | In-progress | 8/15/2010 |