June 28, 2012

THE HONORABLE CHARLES K. EDWARDS
ACTING INSPECTOR GENERAL
U.S. DEPARTMENT OF HOMELAND SECURITY

We have reviewed the system of quality control for the audit organization of the Department of Homeland Security (DHS) Office of Inspector General (OIG) for the year ended September 30, 2011, and have issued our report thereon dated June 28, 2012, in which the DHS OIG received a rating of pass. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in our report.

Management concurred with our findings and recommendations and has taken or is taking corrective actions to address the observations in this letter. Management's response to the draft Letter of Comment is included as an appendix to this letter with excerpts incorporated into the relevant sections of the letter.

Finding 1: Audit Policies

Overall DHS OIG has adequate policies and procedures to ensure compliance with generally accepted government auditing standards. However, we determined DHS OIG could strengthen its policies and procedures related to the following:

- Ensuring that auditors obtain an understanding of information systems controls when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems.

    DHS OIG Audit Manual, Section 2.6.1 and DHS OIG Audit Manual Addendum, Section 2.6.1 provides detailed guidance on the audit planning process and considerations to be taken during the audit planning process.

    However, DHS's policies do not provide specific guidance to ensure auditors understand the information systems controls of those information systems used extensively throughout the program under audit, as well as those system controls that are fundamental business processes significantly related to the audit objectives. After our review was initiated, DHS OIG issued a revised Supervisory Review Checklist, dated March 2012. The checklist includes further guidance for auditors in considering information systems controls.

- Ensuring that auditors evaluate the objectivity, credibility, and reliability of testimonial evidence.

  DHS OIG defines testimonial evidence in the glossary of terms; however, there are no specific policies related to testimonial evidence in the policies and procedures. The policies and procedures do require overall that auditors obtain sufficient, competent, and relevant evidence to provide a reasonable basis for their findings and conclusions. Auditors should obtain and evaluate evidence that ultimately supports their judgments and conclusions pertaining to the audit objectives.

- Ensuring that auditors avoid interfering with investigations or legal proceedings while pursuing indications of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse.

  DHS OIG policies and procedures need improvement to ensure that auditors do not interfere with investigations.

  Included in the planning steps in the TeamMate library is a procedure for the auditors to coordinate with Office of Investigations on initiated or in-process investigations related to the current audit. These steps must not be deleted. DHS OIG also issued a revised Supervisory Review Checklist, which is included in its audit manual. The new checklist reminds auditors to coordinate with investigators. However, DHS does not have a reference in the DHS OIG Audit Manual or the DHS OIG Audit Manual Addendum policies and procedures sections, providing specific guidance to auditors to ensure they do not interfere with investigations.

Recommendation 1:

We recommend DHS OIG management update their policies related to:

- Ensuring auditors obtain an understanding of information systems controls when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems.

- Ensuring auditors evaluate the objectivity, credibility, and reliability of testimonial evidence.

- Ensuring that auditors avoid interfering with investigations or legal proceedings while pursuing indications of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse.

Summary of Management's Comments

In February 2012, DHS OIG began updating and revising their audit manual. The new manual will include revised sections on assessing internal controls; types of evidence; and documenting whether there are any ongoing investigations. DHS OIG plans to implement the new audit manual by September 30, 2012.

Finding 2: TeamMate File Finalization

Teams did not always finalize TeamMate files timely. We noted five teams did not finalize TeamMate files within 20 business days after final report issuance as required. Four teams finalized projects anywhere from 26 business days to more than 10 months after final report issuance and one team did not finalize the TeamMate file at all.

Additionally, we noted that the Policy and Compliance team did not finalize the two TeamMate files associated with the internal quality control reviews (IQCR) which we reviewed.

Audit supervisors said this was an oversight and also problems with the TeamMate migration from version R8 to version R9 as reasons why the TeamMate files were not finalized timely. Policy and Compliance staff indicated that there was no established timeframe for finalizing internal quality control review TeamMate files.

DHS OIG Audit Manual Addendum, Section 2.6.2.2 (3), states "Electronic audit documentation files maintained in TeamMate will be finalized within 20 business days of the final report's issuance. Audit teams should follow the guidance in the OIG TeamMate Manual."

TeamMate files that are not closed in a timely manner run the risk of having unauthorized changes made to the work papers and losing information which could lead to integrity concerns.

Beginning in December 2011, the DHS OIG Office of Management (OM) Planning Compliance Division (PCD) implemented new procedures to ensure that TeamMate audit project files are finalized (locked) within 20 business days of the final report's issuance. At the beginning of each month, OM PCD checks the status of individual TeamMate project files that support recently issued final audit reports. OM PCD also determines whether the audit teams finalized their TeamMate projects properly. If a TeamMate project file is not finalized, OM PCD reminds the audit team via email to finalize the files and notify them when finalization is complete. We believe these actions are sufficient for ensuring TeamMate files are finalized within 20 business days therefore, we are making no recommendation regarding this issue.

However, in keeping with guidelines established by DHS for other audit teams we believe OM PCD should establish guidelines for finalizing TeamMate files for IQCRs.

Recommendation 2:

We recommend DHS OIG management establish timeframes for finalizing TeamMate files associated with internal quality control reviews.

<u>Summary of Management's Comments</u>

In February 2012, DHS OIG began updating and revising their audit manual. The new manual will include a requirement that TeamMate files associated with IQCRs be finalized within 30 business days following the issuance of an IQCR report. DHS OIG plans to implement the new audit manual by September 30, 2012.

Finding 3: Audit Supervision

Teams did not always ensure management reviewed and signed-off on procedure summary steps prior to final report issuance. We noted 24 procedure steps in four audits which showed no evidence of supervisory review.

DHS OIG Audit Manual, Section 2.3 (b) – (d) Audit Supervision Policy, states "The reviewer will document the review by initialing and dating summary audit documents after examining all associated individual documents. Audit staff is expected to answer supervisory review comments prior to the issuance of the final report. For audits documented in TeamMate, the reviewer may sign-off or approve audit documents at the procedure summary level. Individual documents do not require approval. A supervisory review will be deemed timely if completed within 30 days of the completion of intermediate phases or before the final report is issued."

Audit teams cited extenuating circumstances and oversight as the reasons why management did not sign-off on work papers. One audit manager stated that she traditionally did not sign-off on some procedure summaries until after the report was issued.

When work papers are not reviewed promptly, there is reduced assurance that audit work deficiencies will be identified and resolved timely and that report conclusions are adequately supported.

Recommendation 3:

We recommend DHS OIG reiterate to audit teams the importance of ensuring that management review and sign-off procedure summary steps prior to report issuance.

<u>Summary of Management's Comments</u>

The DHS OIG OM Policy and Compliance team will brief auditors on the results of the external peer review. Auditors will be reminded of the importance of ensuring that management reviews and signs off on procedure summary steps prior to report issuance during the briefings. The Policy and Compliance team will also train auditors

on new polices and guidance included in the new audit manual. DHS plans to brief auditors on the results of the external peer review by September 30, 2012.

Finding 4: Supervisory Checklists

Teams did not always include a completed *Supervisory Review Checklist* in the TeamMate file. We noted that five teams did not include the completed checklist in their audit file. Specifically, the auditor-in-charge (AIC), audit manager, or director's signatures were missing from the checklist as required.

DHS OIG Audit Manual, Section 2.3 (f) Audit Supervision Policy, states unless the assistant inspector general (AIG)/ special inspector general (SIG) grants an exception, the *Supervisory Review Checklist* must be prepared, completed, signed, and included in the audit documentation. Exceptions granted by the AIG/SIG must also be included in the audit documentation.

Audit managers cited TeamMate migration issues and oversight as reasons why the form was not completed.

Not obtaining the required signatures on the *Supervisory Review Checklist* could indicate that not all audit documentation received proper supervisory review.

Recommendation 4:

We recommend DHS OIG management reiterate to supervisors the importance of completing the supervisory checklist.

Summary of Management's Comments

The DHS OIG OM Policy and Compliance team will brief auditors on the importance of completing the *Supervisory Review Checklist*. DHS plans to brief auditors on the results of the external peer review by September 30, 2012.

Finding 5: Program approval

Teams did not always ensure the audit program and/or design matrix showed evidence of approval by the appropriate AIG or designee.

One team did not ensure the audit program was approved by the appropriate AIG and another team did not ensure the design matrix was approved by the appropriate AIG. In both instances the documents were approved by the audit manager, however, there was no approval at a higher level.

DHS OIG Audit Manual, Section 2.6.1, Planning Policy, states "The AIG or designees are to approve the design matrix or the audit guide or program at the conclusion of the planning phase."

However, the manual does not provide guidance on who may sign as designee for the AIG.

One manager indicated this was an oversight and the other audit manager stated that this was not a requirement during the time of their review and provided support maintained outside of TeamMate indicating the director had approved the matrix.

Without a high-level review there is no assurance that the AIG is in agreement with the planned objective, scope and methodology of the audit. This could potentially result in auditors pursuing the wrong audit objective, or reaching incomplete or inaccurate conclusions.

Recommendation 5:

We recommend DHS OIG management ensure that teams include documented approval of the audit program and/or design matrix by the AIG or a designee in the TeamMate file. In the event, the AIG delegates approval, the delegation should be in writing and included in the TeamMate file.

Summary of Management's Comments

The DHS OIG will revise the *Planning Section* of the audit manual to include a requirement that the AIG or designees approve the design matrix or the audit guide/program at the conclusion of the audit's planning phase. They will clarify who may sign as an AIG's designee and add that information to the new audit manual. DHS OIG plans to implement the new audit manual by September 30, 2012.

Finding 6: Certificates of Independence

Teams did not always include a completed certificate of independence (COI) in the Teammate file. We noted one team did not include a copy of the completed COI for an independent referencer.

DHS OIG Audit Manual, Section 2.4(a), Independence Declaration Policy, states "The general standard for independence is that in all matters relating to audit work, the audit organization, and the individual auditor (whether employed directly by the Government or by an independent public accountant) should be free both in fact and appearance from personal, external, and organizational impairments to independence.

a. Audit managers, team leads, AICs, and staff are to complete an independence declaration within 2 weeks of joining an audit team. Such declarations will be maintained in the audit documentation. Directors are to complete an independence declaration annually. Independent Reference Reviewers (IRRs) must complete an independence declaration upon assignment."

The audit manager stated that this occurred due to an oversight.

Not completing certificates of independence for the independent referencer could result in potential impairments to independence not being identified.

Recommendation 6:

We recommend DHS OIG management reiterate the importance of properly completing COIs for all staff involved in the audit, including the independent referencer.

Summary of Management's Comments

The DHS OIG OM Policy and Compliance team will brief auditors on the importance of completing a COI when they start work on an audit. DHS plans to brief auditors on the results of the external peer review by September 30, 2012.

Finding 7: Audit Referencing

In one project we identified two instances where the draft report was not properly referenced. In one instance, we determined that the index provided did not refer to the criteria needed to support the conclusion. In another instance, the reference to the sampling methodology was not provided.

DHS OIG Audit Manual, Section 6.1, Audit Report Indexing and Independent Referencing Policy, states "Audit report indexing identifies the exact location of the audit documentation that provides supporting evidence for the report's statements of fact, figures, laws, regulations, conclusions, and findings. The audit report indexing system used should be simple, expandable, consistently applied, and related to the audit program."

The audit manager stated the independent referencer did not question the cross-indexing so the audit team did not realize there was a problem. The audit team provided us with additional references to existing work papers in TeamMate that provided adequate support.

Not ensuring all report statements are verified prior to publication increases the risk of the OIG reporting inaccurate information, thereby damaging the OIG's credibility.

Recommendation 7:

We recommend DHS OIG management reiterate to audit teams the importance of the independent referencing process, which includes ensuring the referencing process is completed thoroughly, including indexing and referencing footnotes and all comments and ensuring all report information is verified by the independent referencer.

Summary of Management's Comments

The DHS OIG OM Policy and Compliance team will brief auditors on the importance of the independence referencing process. DHS plans to brief auditors on the results of the external peer review by September 30, 2012.

Finding 8: Oversight of Contract Files

During our review, we noted a contracting officer technical representative (COTR) did *not always reference documentation maintained outside of TeamMate which was used* to support evidence of contract oversight and monitoring. We noted there were no references to documents maintained outside of TeamMate giving the impression that no documentation existed to support the COTR's oversight of the project. However, the documentation was subsequently provided by the COTR.

Although DHS OIG does not have policies and procedures requiring COTRs to use TeamMate or to have supervisors sign off on all work papers, the agency provides suggested guidance to COTRs in the DHS OIG Audit Manual regarding contract oversight.

DHS OIG Audit Manual, Section 9.2, Audit Contracting Policy, states "The Contracting Officer Technical Representative (COTR) is not required to adhere to GAGAS audit documentation requirements; however, the COTR is responsible for maintaining the official oversight and monitoring documentation file. The documentation will be neat, logically organized, and provide necessary evidence to document that the approved oversight and monitoring plan was followed and completed."

In our opinion, the use of TeamMate for documenting project oversight would provide COTRs with the necessary audit trail to identify the evidence supporting contract oversight. Alternatively, COTRs could put a memorandum in TeamMate indicating the location of documents maintained outside of TeamMate.

Recommendation 8:

We recommend DHS OIG management require COTRs to reference documentation maintained outside of TeamMate.

Summary of Management's Comments

The DHS OIG will revise the COTR section of the audit manual to include a requirement for COTRs to reference documentation maintained outside of TeamMate. DHS OIG plans to implement the new audit manual by September 30, 2012.

General Comments

We observed numerous positive practices at the DHS OIG audit organization and appreciate the cooperation and courtesies provided by the audit staff and the OM Planning and Compliance Division. They showed a high level of professionalism and expertise and displayed a thorough knowledge of the audits we reviewed and the audit organization's policies and procedures. If you have any questions or need additional information, please contact Mark W. Duda, Assistant Inspector General for Audit, at 703-248-2100.

David C. Williams
Inspector General

Enclosure

Appendix A. Management's Comments

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

June 25, 2012

The Honorable David C. Williams
Inspector General
United States Postal Service
1735 North Lynn Street
Arlington, VA 22209

Dear Mr. Williams:

Thank you for the opportunity to comment on your draft Letter of Comment for our external peer review. In a separate response, we note the conclusion in your draft System Review Report that our system of quality control for the fiscal year ended September 30, 2011, was suitably designed and complied with to provide reasonable assurance of performing audits and reporting results in conformity with applicable professional standards. We are pleased to receive a peer review rating of *pass*.

In the draft Letter of Comment, you identified minor enhancements needed to our audit operations that are not considered to be of sufficient significance to affect our peer review rating of *pass*. We concur with the recommendations and will fully implement them by September 30, 2012. Once implemented, the recommendations should strengthen our existing system of quality controls and further increase our auditors' compliance with internal audit policies and procedures and professional standards. Listed below are your recommendations and the specific actions we have taken or are taking to enhance our audit operations and system of quality controls.

Recommendation 1 – Update [DHS OIG] policies related to ensuring auditors: (1) obtain an understanding of information systems controls when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems; (2) evaluate the objectivity, credibility, and reliability of testimonial evidence; and (3) avoid interfering with investigations or legal proceedings while pursuing indications of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse.

Our audit manual guidance included in the *Internal Control Environment* section requires our auditors to obtain an understanding of information systems controls. However, our current manual does not include instructions for auditors on how to obtain an understanding of information system controls in audit planning. To resolve this issue, we added instructions for our auditors in our revised *Supervisory Review Checklist*, issued in March 2012. Auditors are instructed to document their assessment

of the reliability of information processed or generated from information systems. Specifically, *Supervisory Review Checklist* item #14.d directs our auditors to document the procedures that the auditor/team followed to review a computer system's general and application controls or conduct other tests to determine the relevance and reliability of the auditee's computer-generated data.

In February 2012, we began the process of updating and revising our OIG Audit Manual. We plan to issue the new OIG Audit Manual by September 30, 2012. The new manual will include a revised section on assessing internal controls, which will agree to our *Supervisory Review Checklist* item #14.d. We will also add references to generally accepted government auditing standards (GAGAS) requirements regarding information systems controls. We are also revising the Field Work Policy and Guidance section of our new OIG Audit Manual, which discusses types of audit evidence. The revised section will include information and references to GAGAS requirements regarding the types and source of evidence, including testimonial evidence and the reliance that should be placed on various types of evidence.

Although we believe that our guidance is sufficient to ensure that our auditors do not inadvertently affect an investigation or a legal proceeding, we will add a requirement in our new OIG Audit Manual for auditors to determine and document whether there are any ongoing investigations or legal proceedings relative to the audit being conducted. Currently, we include in the planning steps in the TeamMate template (our standard electronic audit guide/program) a procedure for our auditors to coordinate with our Office of Investigations on initiated or in-process investigations related to the current audit. Additionally, our revised *Supervisory Review Checklist*, issued in March 2012, includes item #10.b regarding investigations and legal proceedings. This item reminds and directs auditors to determine and document whether there are any ongoing investigations or legal proceedings relative to the audit or significant to the audit objectives by contacting our Office of Investigations.

We will consider all parts of this recommendation closed once the new OIG Audit Manual is issued by September 30, 2012.

Recommendation 2 – Establish timeframes for finalizing TeamMate files associated with internal quality control reviews.

We will revise our OIG Audit Manual to include a requirement that TeamMate files associated with internal quality control review (IQCR) be finalized within 30 business days following the issuance of an IQCR report. We will consider this recommendation closed once the new OIG Audit Manual is issued by September 30, 2012.

2

Recommendation 3 – Reiterate to audit teams the importance of ensuring that management review and sign off on procedure summary steps prior to report issuance.

By September 30, 2012, our Office of Management Policy and Compliance team will brief auditors on the results of the external peer review. Auditors will be reminded of the importance of ensuring that management reviews and signs off on procedure summary steps prior to report issuance during the briefings. The Policy and Compliance team will also train auditors on new policies and guidance included in the new OIG Audit Manual. During the training sessions, auditors will again be instructed to ensure that management reviews and signs off on procedure summary steps prior to report issuance. We will consider this recommendation closed once auditors are briefed on the peer review results by September 30, 2012.

Recommendation 4 – Reiterate to supervisors the importance of completing the *Supervisory Review Checklist*.

As stated, the Policy and Compliance team will brief and train our auditors. The team will also brief them on the importance of completing the *Supervisory Review Checklist*. We will consider this recommendation closed once auditors are briefed on the peer review results by September 30, 2012.

Recommendation 5 – Ensure that teams include documented approval of the audit program and/or design matrix by the Assistant Inspector General (AIG) or a designee in the TeamMate file. In the event that the AIG delegates approval, the delegation should be in writing and included in the TeamMate file.

We will revise the *Planning Policy* section of our audit manual to include a requirement that the AIG or designees approve the design matrix or the audit guide/program at the conclusion of the audit's planning phase. We will clarify who may sign as an AIG's designee and add that information to our new audit manual. We will also state that the delegation must be in writing and included in the audit documentation. We will consider this recommendation closed once the new OIG Audit Manual is issued by September 30, 2012.

Recommendation 6 – Reiterate the importance of properly completing COIs [certificates of independence] for all staff involved in the audit, including the independent referencer.

As stated, the Policy and Compliance team will brief and train our auditors. The team will also brief them on the importance of completing a certificate of independence when they start work on an audit. We will consider this recommendation closed once auditors are briefed by September 30, 2012.

3

Recommendation 7 – Reiterate to audit teams the importance of the independent referencing process, which includes ensuring that the referencing process is completed thoroughly, including indexing and referencing footnotes, and all comments and ensuring all report information is verified by the independent referencer.

As stated, the Policy and Compliance team will brief and train our auditors. The team will also brief them on the importance of the independent referencing process. We will consider this recommendation closed once auditors are briefed by September 30, 2012.

Recommendation 8 – Require COTRs [Contracting Officer's Technical Representative] to reference documentation maintained outside of TeamMate.

We will revise the COTR section of the OIG Audit Manual to include a requirement for COTRs to reference documentation maintained outside of TeamMate. We will consider this recommendation closed once the new OIG Audit Manual is issued by September 30, 2012.

We appreciate the thorough and professional manner in which your staff conducted the review.

DHS OIG is firmly committed to maintaining an effective system of quality controls and to working continuously to improve our operations. We will continue to ensure that compliance with applicable professional standards and our internal audit policies and guidance are a priority for our auditors, and that annual internal quality control reviews are conducted to test for compliance with applicable professional standards and our audit policies and guidance. We will also continue to communicate to our auditors the results of all external peer reviews and internal quality control reviews and ensure that necessary corrective actions are implemented as soon as possible.

Should you have any questions, please call me, or your staff may contact Louise McGlathery, Acting Assistant Inspector General for Management, at (202) 254-4100.

Sincerely,

Charles K. Edwards
Acting Inspector General