



**FEDERAL MARITIME COMMISSION**

800 North Capitol Street, N.W.  
Washington, DC 20573

May 5, 2011

*Office of Inspector General*

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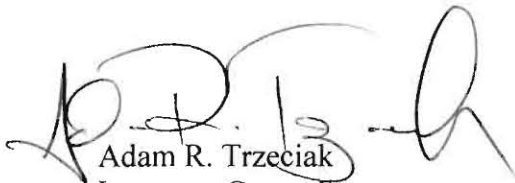
Ms. Lynne A. McFarland  
Inspector General  
Federal Election Commission  
999 E Street, NW  
Washington, DC 20463

Subject: System Review Report on the Federal Election Commission's Office of  
Inspector General Audit Organization

Dear Ms. McFarland:

Attached is the final System Review Report of the Federal Election Commission 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 Comment Letter is included as Exhibit A.

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



Adam R. Trzeciak  
Inspector General

Attachment



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### System of Review Report

Ms. Lynne A. McFarland  
Inspector General  
Federal Election Commission  
999 E Street, NW  
Washington, DC 20463

We have reviewed the system of quality control for the Federal Election Commission Office of Inspector General (FEC-OIG) in effect for the year ended September 30, 2010. A system of quality control encompasses the OIG's organizational structure and 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*. FEC-OIG is responsible for designing a system of quality control and complying with it to provide FEC-OIG with 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 FEC-OIG's compliance therewith based on our review.

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 FEC-OIG personnel and obtained an understanding of the nature of the FEC-OIG audit organization, and the design of the FEC-OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the FEC-OIG's system of quality control. The engagements selected represented a reasonable cross-section of the FEC-OIG's audit organization. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with FEC-OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the FEC-OIG's audit organization. In addition, we tested compliance with the FEC-

OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the FEC-OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

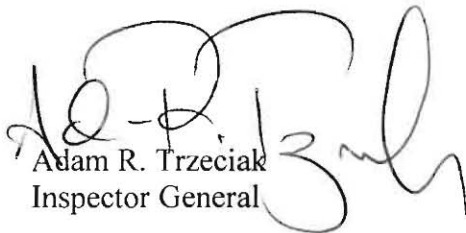
There are inherent limitations in the effectiveness of any system of quality control and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for FEC-OIG in effect for the year ended September 30, 2010, has been suitably designed and complied with to provide FEC-OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*; *pass with deficiencies*, or *fail*. FEC-OIG has received a peer review rating of *pass*.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to FEC-OIG's monitoring of engagements 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 an IPA 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 FEC-OIG had controls to ensure the IPA 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 FEC's OIG monitoring of work performed by the IPA.

As is customary, we have issued a letter dated April 14, 2011, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Enclosure 1 to this report identifies our scope and methodology, FEC-OIG site visited and engagements reviewed.

  
Adam R. Trzeciak  
Inspector General

Enclosure

## SCOPE AND METHODOLOGY (Enclosure 1)

### Scope and Methodology

We tested compliance with the FEC-OIG's system of quality control to the extent we considered appropriate. These tests included a review of the only performance audit conducted by the FEC-OIG during the semiannual reporting periods ended March 31, 2010 and September 30, 2010.

We also reviewed FEC-OIG's monitoring of its independent auditor performance on the FY 2010 financial statement audit. We extended the performance period to November 15, 2010, to fully capture FEC-OIG monitoring activities in our review. Monitoring of engagements is not subject to the requirements of Government Auditing Standards and is not reflected in our opinion of FEC-OIG's system of quality control.

### OIG Office Reviewed

We visited and performed our review at the Federal Election Commission's Office of Inspector General, located in Washington, DC during March 2011. We did not visit the independent auditor's office to review supporting documentation as documentation was maintained by the FEC-OIG.

### Reviewed Engagements Performed by FEC-OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-09-02	March 2010	Audit of the Commission's Property Management Controls

### Reviewed Monitoring Files of FEC-OIG for Contracted Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-10-01	November 2010	Audit of the Federal Election Commission's FY 2010 Financial Statements





*Office of Inspector General*

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May 19, 2011

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Ms. Lynne A. McFarland  
Inspector General  
Federal Election Commission  
999 E Street, NW  
Washington, DC 20463

Dear Ms. McFarland,

The Federal Maritime Commission Office of Inspector General (FMC-OIG) has reviewed the system of quality control for the Federal Election Commission Office of Inspector General (FEC-OIG) in effect for the year ended September 30, 2010, and has issued our report thereon dated May 5, 2011, in which the FEC-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 that report.

### **Finding 1. –Quality Control and Assurance – Annual Review Not Completed as Intended in GAGAS**

*Government Auditing Standards* 3.53(f) provides guidance for monitoring of quality. According to the standard, there should be an ongoing assessment of work designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively. Sec. 3.54 states further that “(t)he audit organization should summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.”

The review of its policies and procedures should collectively address:

- Leadership responsibilities for quality within the audit organization;
- Independence, legal and ethical requirements;
- Initiation, acceptance and continuance of audit engagements;
- Human resources;

- Audit engagement performance, documentation and reporting; and
- Monitoring of quality.

The Council of the Inspectors General on Integrity and Efficiency, Peer Review Guide, issued March 2009, also provides this instruction and suggests using the Silver Book as a framework to complete the review.

The FEC-OIG provided the FMC-OIG with Annual A-123 Assurance Letters for FY 2009 and FY 2010. However, these letters do not address the intent of the *Government Auditing Standards* nor the *Standards'* requirements.

Recommendation

FMC-OIG recommends the FEC-OIG annually reviews its operations, reports on its results, makes recommendations, if applicable, and maintains the results. The annual review should collectively address the following:

- Leadership responsibilities for quality within the audit organization;
- Independence, legal and ethical requirements;
- Initiation, acceptance and continuance of audit engagements;
- Human resources;
- Audit engagement performance, documentation and reporting; and
- Monitoring of quality.

View of Responsible Official

GAS A3.04 (Appendix) provides guidance to assist auditors and audit organizations in establishing policies and procedures in its system of quality control to address the elements in GAS section 3.53, which are the same elements identified in FMC OIG's recommendation. In accordance with A3.04, the FEC OIG's policies and procedures address the six elements identified by GAGAS and documented in the FMC OIG's recommendation. See table below.

<b>GAGAS Quality Control Element</b>	<b>FEC OIG Policy and/or Procedure</b>
<ul style="list-style-type: none"> <li>• Leadership responsibilities for quality within the audit organization</li> </ul>	Deputy IG/IG review and approval of audit programs, review and sign-off of audit workpapers; Review of audit reports for GAGS compliance by the Deputy IG/ IG; FEC OIG Audit Manual Chapter 7: Supervising Engagement
<ul style="list-style-type: none"> <li>• Independence, legal, and ethical requirements</li> </ul>	Mandatory Independence Certification Form, Organizational Conflict of Interest Forms, and Nondisclosure Agreements
<ul style="list-style-type: none"> <li>• Initiation, acceptance, and continuance of audit engagements</li> </ul>	Annual performance plans approved by the IG; FEC OIG Audit Manual Chapter 5: Annual Audit Planning



<ul style="list-style-type: none"> <li>• Human Resources</li> </ul>	FEC OIG hiring requirements; CPE logs and training certificates maintained by the Special Assistant to the IG; FEC OIG Audit Manual Chapter 4: Staff Qualifications & CPE
<ul style="list-style-type: none"> <li>• Audit engagement performance, documentation and reporting</li> </ul>	FEC OIG Audit Manual Chapter 14: Electronic Workpapers (use of TeamMate) & Chapter 17: Reporting Audit Results; OIG Report Processing Checklist
<ul style="list-style-type: none"> <li>• Monitoring of quality</li> </ul>	Audit Quality Assurance Checklist, IPA Monitoring checklist, Monitoring Performance guidance provided by the Contracting Officer in the Assignment of CoTR letter.

In addition to our current annual quality control process, the FEC OIG will document the status, effectiveness, and adequacy of the six control elements identified in GAS 3.53 that are incorporated in the FEC OIG’s policies and procedures identified in the table above.

**Finding 2. Independence – No Evidence of Independence Statements in Workpapers**

The FEC-OIG is organizationally independent from the FEC by reporting directly to the Commissioners. FEC-OIG audit manual provides policy on “Professional Conduct” which includes independence, personal impairments, external impairments and professional care. The manual does not require an independence statement from its auditors; however staff indicated that such statements are routinely prepared.

The FEC-OIG does require independence statements from contractors performing work and those that participate on contract proposal evaluation.

Notwithstanding the OIG’s stated practice, we did not find independence statements in the audit documentation for the audits reviewed. Appendix A provided by FEC-OIG stated that the updated audit manual will have the independence certification for its auditors to complete.

Recommendation

FMC-OIG recommends the FEC-OIG require its staff, and staff that provide referencing of its products, to complete an independence statement annually (preferably at the beginning of the fiscal year).

View of Responsible Official

The FEC OIG Audit Manual was recently been revised to require all FEC OIG auditors in addition to OIG audit contractors to complete an Independence Certification Statement for each audit. The audit manual was completed in March 2011 and was provided to the FMC OIG peer review team for review and evidence of completion.

### **Finding 3. Reporting Standards – No GAGAS Compliance Statement in Report**

Section 8.30 of the July 2007 revision to the *Government Auditing Standards* states that when auditors comply with all applicable generally accepted government auditing standards (GAGAS), they should use specific language which represents an unmodified GAGAS compliance statement in the audit report to indicate that they performed the audit in accordance with GAGAS. The following language is required by the *Government Auditing Standards*:

*We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.*

Use of the word “should” in GAGAS specifies a “presumptively mandatory requirement” that auditors and audit organizations must comply with in all cases in which the circumstances exist. Justification for any departure from the mandatory requirement must be documented.

We reviewed the compliance statement contained in FEC’s *Audit of the Commission’s Property Management Controls* (OIG-09-02). We found the FEC-OIG did not provide the statement in its entirety. The audit report had the following statement “The audit was performed in accordance with generally accepted government auditing standards.”

#### **Recommendation**

FMC-OIG recommends that performance audit reports contain the GAGAS statement as required by *Government Auditing Standards*.

#### **View of Responsible Official**

In accordance with GAS 1.12a, the FEC OIG’s Audit of the Commission’s Property Management Controls report contains the unmodified GAGAS compliance statement: “*The audit was performed in accordance with generally accepted government auditing standards.*” In addition, the FEC OIG reviewed OIG reports from other agencies and noted that the statement in the audit reports can vary. However, the FEC OIG will consider the complete language identified in GAS 8.30 for future audits.

### **Finding 4. Audit Documentation – Workpapers Did Not Always Contain Purpose, Source, Scope and Conclusion**

*Government Auditing Standards* state that “auditors are to prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results



of audit procedures performed...” FEC-OIG audit manual stated the purpose, source, scope and conclusion should be part of the audit documentation.

In FMC’s review of audit documentation for the *Audit of the Commission’s Property Management Controls* (OIG-09-02), we found the audit documentation did not always contain sufficient evidence to allow a person with no connection to the audit to understand the documentation. The sample of audit documentation reviewed did not contain the purpose, source, scope, results or conclusions made for audit documentation collected.

Recommendation

FMC-OIG recommends all workpapers (audit documentation) contain the purpose, source, scope and conclusions.

View of Responsible Official

The FEC OIG concurs with the finding. The FEC OIG will ensure that future audits contain the purpose, source, scope, and conclusion for all appropriate workpapers.

**Finding 5. Audit Manual –Update Needed to Reflect the OIG’s Current Processes**

In 2007, the FEC-OIG implemented the use of TeamMate (TM), software for automating the audit process. In FEC-OIG’s previous peer review, FEC-OIG noted that it would be updating its audit manual to incorporate TM processes. During the current peer review we found the audit manual still had not been updated to incorporate TM’s functions and other controls, although the FEC-OIG responses to Appendix A of the peer review questionnaire adequately describe the TM work paper processes.

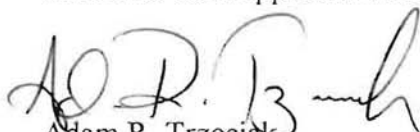
Recommendation

FMC-OIG recommends that FEC-OIG updates its audit manual and incorporates the responses provided to the FMC-OIG in Appendix A: Policies and Procedures and TeamMate’s functionality.

View of Responsible Official

The FEC OIG concurs with the finding. The FEC OIG has recently (March 2011) completed revisions to the FEC OIG Audit Manual to reflect the current OIG processes. This revised audit manual was provided to the FMC OIG for review and evidence of completion. The revised audit manual has been in effect since March 31, 2011.

The FMC OIG appreciates the courtesies extended by FEC OIG during our review.

  
Adam R. Trzeciak  
Inspector General