



Department of Energy
Washington, DC 20585

September 20, 2012

Mr. Michael G. Carroll
Acting Inspector General
U.S. Agency for International Development
Ronald Reagan Building
Washington, DC 20523

Dear Mr. Carroll:

We have reviewed the system of quality control for the U.S. Agency for International Development, Office of Inspector General, Office of Audit, that was in effect for the period ended March 31, 2012. A system of quality control encompasses the Office of Audit's organizational structure, adopted policies and established procedures to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*, and the Office of Audit is responsible for designing a system of quality control and complying with it to provide the Office of Audit 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 quality control system and the Office of Audit's compliance with the established system.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency. During our review, we interviewed Office of Audit personnel and obtained an understanding of the nature of the Office of Audit's organization and the design of the Office of Audit's system of quality control sufficient for assessing the risks implicit in its audit function. Based on our assessment, we selected engagements and administrative files to test for conformity with professional standards and compliance with the Office of Audit's system of quality control. The engagements selected represented a reasonable cross-section of the Office of Audit's organization, with an emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with Office of Audit management to discuss the results of the 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 Office of Audit. In addition, we tested compliance with the Office of Audit's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Office of Audit'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

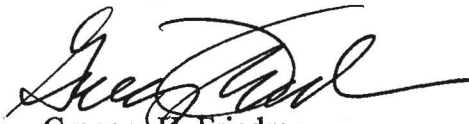


any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

The enclosure to this report identifies the Office of Audit locations that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the Office of Audit in effect for the period ended March 31, 2012, has been suitably designed and complied with to provide the Office of Audit 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*. The Office of Audit has received a peer review rating of *pass*. As is customary, we have issued a letter dated September 20, 2012, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Greg Friedman', written in a cursive style.

Gregory H. Friedman
Inspector General

Enclosure

SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the U.S. Agency for International Development (USAID), Office of Inspector General, Office of Audit's system of quality control to the extent we considered appropriate. These tests included a review of 14 of 79 performance and financial audit reports issued during the period of April 1, 2011, through March 31, 2012, and semiannual reporting periods of April 1, 2011, through September 30, 2011, and October 1, 2011, through March 31, 2012.

We visited the Financial Statement Audit Office and Millennium Challenge Corporation, in the Office of Audit, in Washington, DC. In addition, we conducted telephone interviews with personnel from the following international offices of the Office of Audit: Regional Inspector General Offices in Cairo, Egypt; Dakar, Senegal; Manila, Philippines; Pretoria, South Africa; and San Salvador, El Salvador; and, Country Offices in Kabul, Afghanistan; Islamabad, Pakistan; and Baghdad, Iraq.

Reviewed Engagements Performed by USAID Office of Inspector General

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
5-440-11-007-P	May 2011	<i>Audit of USAID/Vietnam's Competitiveness Initiative Phase II</i>
G-391-11-004-P	May 2011	<i>Audit of USAID/Pakistan's Management of Pre-Award Assessments</i>
E-267-11-002-P	May 2011	<i>Audit of USAID/Iraq's Agribusiness Program</i>
F-306-11-003-P	June 2011	<i>Audit of USAID/Afghanistan's Support to the Electoral Process (STEP) and Support for Increased Electoral Participation (IEP) in Afghanistan Programs</i>
7-683-11-008-P	June 2011	<i>Audit of USAID's Food Assistance Under the Multiyear Assistance Program in Niger</i>
I-519-11-007-P	August 2011	<i>Audit of USAID/El Salvador's Education Activities</i>
F-306-11-005-S	August 2011	<i>Review of USAID/Afghanistan's Afghan Civilian Assistance Program</i>

4-673-11-011-P	August 2011	<i>Audit of USAID/Namibia's HIV/AIDS Care Program</i>
F-306-12-001-P	November 2011	<i>Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for Southern Region</i>
E-267-12-001-P	November 2011	<i>Audit of USAID/Iraq's Community Action Program Activities Implemented by International Relief and Development</i>
4-615-12-002-P	November 2011	<i>Audit of USAID/Kenya's Assistance to Orphans and Other Vulnerable Children</i>
0-000-12-001-C	November 2011	<i>Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010</i>
6-294-12-003-P	January 2012	<i>Audit of USAID/West Bank and Gaza's Palestinian Health Sector Reform and Development Project</i>
6-268-12-004-P	January 2012	<i>Audit of USAID/Lebanon's Landmines and War Victims Program</i>

MANAGEMENT COMMENTS



Office of Inspector General

Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
U.S. Department of Energy
Office of Inspector General
MS 5D-031, ATTN: IG-30
1000 Independence Avenue, SW
Washington, DC 20585

Dear Mr. Hass:

We are pleased to respond to your Draft Letter of Comment for the system of quality control for the U.S. Agency for International Development, Office of Inspector General, Office of Audit. We are pleased to have received a rating of *pass* in the system of quality control review report.

We agree with the findings and recommendations in the Letter of Comment and believe that implementing the recommendations will enhance our already sound quality control systems. In response to the recommendations, our Headquarters Liaison and Coordination Division will perform an internal review that will address the findings on fraud risk and sampling techniques. We will also develop a training program to explain our Office of Audit Handbook for Washington and overseas staff and will emphasize the issues in the findings. The review and training will be completed by the end of fiscal year 2013. The memo discussed in our comments below will be sent to our staff by October 15, 2012.

Finding 1. Fieldwork Standards – Documentation of Planning

This finding discusses the requirement to appropriately assess the risks of fraud and to document the auditor's actions and results.

Recommendation No. 1

Ensure that auditing standards and its policies and procedures are followed to fully document the planning and testing of fraud-related steps and resolution of allegations.

We will send a memo to all Office of Audit staff members reminding them of the Handbook requirements to (1) discuss and identify risks of fraud and (2) when information comes to the

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auditor's attention (from any source) indicating that illegal acts or abuse may have occurred the auditor should extend the audit steps and procedures to determine whether the acts or abuse have occurred. All actions and results should be fully documented in the work papers.

Finding No. 2. Fieldwork Standards – Supervisory Review of Work Papers

This finding discusses the requirement for timely preparation and supervisory review of work papers.

Recommendation No. 2

Re-emphasize the importance of complying with auditing standards relating to adequacy and documentation of supervisory review.

We will send a memo to all Office of Audit staff members re-emphasizing the importance of complying with auditing standards relating to adequacy and documentation of supervisory review.

Finding No. 3. Field Work Standards: Evidence and Audit Documentation; and Reporting Standards: Report Content

This finding discusses the requirements for statistical sampling.

Recommendation No. 3

Ensure that auditors: 1) fully document and report the rational for selection and application of sampling techniques; and, 2) properly utilize procedure summaries in TeamMate, as primary work papers, for documenting audit work.

We will send a memo to all Office of Audit staff members reminding them to fully document and report the rational for selection and application of sampling techniques and to properly utilize procedure summaries in TeamMate as primary work papers for documenting work.

Sincerely,

/s/

Melinda G. Dempsey
Deputy Assistant Inspector General
for Audit