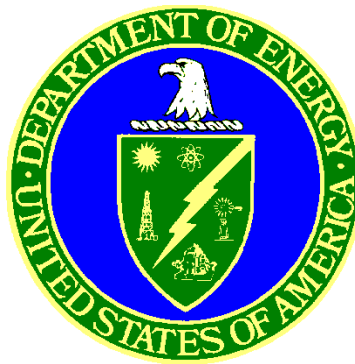


**U.S. Department of Energy  
Office of Inspector General  
Office of Audits  
Deputy Inspector General for Audits and Inspections**

# **AUDIT MANUAL**



**Release 8  
Revised 2014**

**OFFICE OF INSPECTOR GENERAL**  
**OFFICE OF AUDITS**  
**AUDIT MANUAL**

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## ACRONYMS

ACAP	Audit Career Advisory Panel
ACL	Audit Control Language
ACSEC	American Institute of Certified Public Accountants Accounting Standards
AD	Assistant Division Director
AIC	Auditor-in-Charge
AICPA	American Institute of Certified Public Accountants
AIG	Assistant Inspector General
AIGA	Assistant Inspector General for Audits
AIGAA	Assistant Inspector General for Audits and Administration
AIGMA	Assistant Inspector General for Management and Administration
CAATs	Computer-Assisted Audit Techniques
CAM	Contract Audit Manual (Defense Contract Audit Agency)
CAS	Cost Accounting Standards
CPA	Certified Public Accountant (or Accounting)
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CO	Contracting Officer
CPE	Continuing Professional Education
DARTS	Departmental Audit Report Tracking System
DCAA	Defense Contract Audit Agency
DD	Division Director
DEAR	Department of Energy Acquisition Regulation
DIGAI	Deputy Inspector General for Audits and Inspections
DIGI	Deputy Inspector General for Investigations
DOE	Department of Energy
DOT	Department of Transportation
DPAQA	Director for Planning, Administration and Quality Assurance
EAD	Eastern Audits Division
ECIE	Executive Council on Integrity and Efficiency
EOS	End-of-Survey
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FAM	Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual
FERC	Federal Energy Regulatory Commission
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOIA	Freedom of Information Act of 1967
FTR	Federal Travel Regulation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards

## LIST OF ACRONYMS

GAS	Government Auditing Standards
GASB	Governmental Accounting Standards Board
GC	General Counsel
GAO	Government Accountability Office
GL	General Ledger
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 2010
HQ	Headquarters
IAASB	International Auditing and Assurance Standards Board
IDP	Individual Development Plan
IDW	I-MANAGE Data Warehouse
IG	Inspector General
IG Act	Inspector General Act of 1978
IIA	The Institute of Internal Auditors
IPA	Independent Public Accountant
IT	Information Technology
M&O	Management and Operating
NNSA	National Nuclear Security Administration
OA	Office of Audits
OAI	Office of Audits and Inspections
OCFO	Office of the Chief Financial Officer
OFPP	Office of Federal Procurement Policy
OI	Office of Investigations
OIG	Office of Inspector General
OJT	On-the-Job Training
OMA	Office of Management and Administration
OMB	Office of Management and Budget
OPAQA	Office of Planning, Administration and Quality Assurance
OUO	Official Use Only
PA	Privacy Act of 1974
PCAOB	Public Company Accounting Oversight Board
PCIE	President's Council on Integrity and Efficiency
PII	Personally Identifiable Information
PSSC	Purpose, Source, Scope and Conclusion
QA	Quality Assurance
RSSI	Required Supplementary Stewardship Information
SAS	Statements on Auditing Standards
SCIC	Statement of Costs Incurred and Claimed
SES	Senior Executive Service
SOP	Standard Operating Procedures
SSAE	Statements on Standard for Attestation Engagements
STARS	Standard Accounting and Reporting System
STRIPES	Strategic Integrated Procurement Enterprise System
TAG	Technology Audit Group
TD	Technical Director
TL	Team Leader

## LIST OF ACRONYMS

TM	Technical Monitor
TSCM	Technical Surveillance Countermeasures Program
UCNI	Unclassified Controlled Nuclear Information

# **CHAPTER 1**

## **INTRODUCTION TO THE AUDIT MANUAL**

### **A. PURPOSE OF THE AUDIT MANUAL**

This Manual consolidates the policies, procedures, standards, technical guidance, and other techniques to be followed by the Deputy Inspector General for Audits and Inspections (DIGAI) and staff in planning, conducting, and reporting Department of Energy (Department) audit work on behalf of the Office of Inspector General (OIG). In addition to this Manual, the Office of Audits and Inspections (OAI) has report and editorial guidance covering audit report preparation, a TeamMate EWP Protocol and TeamRisk Guide covering audit documentation and planning using TeamMate application software, and an Administrative Policies and Procedures Manual covering administrative issues. These documents are available through either the OIG's external Web site or intranet.

### **B. APPLICABILITY**

All auditors in the OA and auditors under contract to the DIGAI are required to follow the policies, procedures and other requirements contained in this Manual for all audit work.

### **C. RELATIONSHIP OF MANUAL TO EXTERNAL STANDARDS**

The audit standards, policies, and procedures to be followed in executing the OA mission were compiled from a variety of sources. This Manual is intended to be consistent with all applicable external standards and to ensure that performance and financial statement audits, attestation engagements, and all other audits and reviews conducted by, or on behalf of, the OA are professional, objective, reliable, and fair.

1. Government Auditing Standards. The United States Government Accountability Office's (GAO) publication, *Government Auditing Standards*, December 2011 Revision, issued by the Comptroller General of the United States, contains standards for audits and attestation engagements for government organizations, programs, activities, functions and funds received by contractors, grantees and other nongovernmental organizations. These standards, informally called the "Yellow Book," are referred to as "generally accepted Government auditing standards" (GAGAS) and shall apply to all OA audit work and attestation engagements.

2. American Institute of Certified Public Accountants. The American Institute of Certified Public Accountants (AICPA) has established professional standards that apply to financial statement audits and attestation engagements for entities not covered by the Sarbanes-Oxley Act of 2002. For financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. For attestation engagements, GAGAS incorporate the AICPA general standard on criteria, and the field work and reporting standards and the related Statements on Auditing Standards for Attestation Engagements (SSAE) unless specifically excluded or modified by GAGAS. GAGAS describe ethical principles and establish independence and other general standards, and

## CHAPTER 1 -- INTRODUCTION TO THE AUDIT MANUAL

additional field work and reporting standards beyond those provided by the AICPA for performing financial audits and attestation engagements.

3. Council of the Inspectors General on Integrity and Efficiency. The Council of the Inspectors General on Integrity and Efficiency's (CIGIE) promulgated standards, *Quality Standards for Federal Offices of Inspector General*, revised August 2012, apply to governmental audit activities and are consistent with GAGAS. The CIGIE has also developed standards and detailed guidance for conducting external quality control reviews of OIG audit operations.
4. Office of Management and Budget Bulletins and Circulars. From time to time, the Office of Management and Budget (OMB) issues various bulletins and circulars related to audits conducted in accordance with GAGAS, or that otherwise affect how audits of financial statements, programs, and activities are to be conducted. The guidance is available through the OMB Web site.
5. The Inspector General Act of 1978. The Inspector General Act of 1978 (IG Act), as amended, requires that audit work conducted by Federal Inspector Generals, as well as audit work conducted by non-Federal auditors on their behalf, comply with GAGAS.
6. Public Company Accounting Oversight Board. The Public Company Accounting Oversight Board (PCAOB) has established professional standards that apply to financial audits and attestation engagements for issuers. Auditors may use GAGAS in conjunction with the PCAOB standards.
7. International Auditing and Assurance Standards Board. The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and attestation engagements. Auditors may use GAGAS in conjunction with the IAASB standards and the related statements on International Statements on Auditing.

While every OIG OA auditor, team leader, or director is expected to follow all applicable guidance issued by the sources listed above, it is the ultimate responsibility of the OIG assigned team leader to ensure that any applicable Departmental, GAO, AICPA, CIGIE, OMB, IG Act, PCAOB, and IAASB requirements are met for each audit or engagement.

### **D. STRUCTURE OF THE AUDIT MANUAL**

This Manual is divided into six major sections, as follows:

1. Part I -- Introduction. Part I contains Chapters 1 and 2 and provides a general introduction to the Manual and the OIG's organization and functions.
2. Part II -- General Audit Policies and Procedures. Part II contains Chapters 3 to 9 and provides information on general audit policies, general fieldwork policies, planning, audit evidence, and documentation, advanced audit techniques, general reporting policies, assuring a quality report, and audit resolution and follow-up.
3. Part III -- Performance Auditing. Part III contains Chapters 10 and 11 and provides information on conducting performance audits and issuing and distributing performance audit reports. Performance audit report templates are available on the OIG's intranet.

## CHAPTER 1 -- INTRODUCTION TO THE AUDIT MANUAL

4. Part IV -- Financial Statement Auditing. Part IV consists of Chapter 12 that discusses financial statement audits.
5. Part V -- Contract Audits. Part V consists of Chapter 13 that provides guidance for contract auditing and contract audit reports.
6. Part VI -- Auditing Department Major Contractors. Part VI contains Chapters 14 and 15 and provides guidelines for assessing the internal audit function and the cost statements (e.g., Statement of Costs Incurred and Claimed [SCIC]) of major contractors responsible for managing and operating Department-owned or Department controlled laboratories, facilities and resources.

### ***E. UPDATES TO THE MANUAL***

This Manual is intended to be a basic reference document for all OA guidance and instruction. To ensure the Manual's usefulness, it should be kept up to date to reflect changes in audit standards, the OA organization, and the audit environment.

1. Suggestions. Suggestions for revisions to the Manual are welcomed and should be brought to the attention of the Office of Planning, Administration and Quality Assurance (OPAQA). OPAQA will be responsible for reviewing suggestions and updating the Manual.
2. Updates/Changes. The Manual will be updated as required (i.e., new version release). All updates will be posted on the OIG Web site and intranet. All OA staff will be notified via e-mail about updates, and when interim changes are issued between updates (i.e., guidance change memorandum).

### ***F. MANUAL TERMINOLOGY***

1. Use of Acronyms. All acronyms used in this Manual are identified in the List of Acronyms, which appears after the Table of Contents. Acronyms will also be identified the first time used in the Manual or if necessary for clarity.
2. Audits. As described in Chapter 2, the OA performs performance audits, financial statement audits, other related financial audits, and attestation engagements. Because, in most cases, these types of assignments follow the same OA policies and procedures, these assignments will be referred to generically as "audits" throughout this Manual, except in cases where the policies and procedures differ due to the type of assignment or differentiation for clarity is necessary.

## **CHAPTER 2**

### **AUDITING IN THE DEPARTMENT OF ENERGY**

#### **A. SCOPE OF CHAPTER**

This chapter provides an overview of the authority and responsibilities of the Inspector General (IG) and the organization and structure of the OIG and the OA.

#### **B. AUTHORITY AND RESPONSIBILITIES OF THE INSPECTOR GENERAL**

The OIG was established by Statute and is responsible for auditing Department programs and operations. The IG's responsibility for auditing does not supplant the authority of Department officials to perform programmatic reviews of individual programs and enforce regulatory functions. The IG's specific authority and responsibilities include:

1. **Statutory Authority.** The Department Organization Act, Public Law 95-91, as amended (42 U.S. Code 7138), established an OIG in the Department. Public Law 100-504 transferred the authority of the OIG to the Inspector General Act of 1978 (IG Act), as amended (Title 5, U.S. Code, App. 3). The IG Act gives the IG the authority to appoint an individual with responsibility for supervising audit activities relating to Department programs and operations. In response to this provision of the IG Act, and in accordance with applicable laws and regulations, the IG established the DIGAI position within the OIG.
2. **Statutory and Non-statutory Responsibilities.** In addition to the responsibilities established in the OIG's fundamental charter, many other requirements arise from statute, regulation, Departmental policy, or OMB policy. A few of these requirements are discussed below.
  - a. **Audit of the Department's Consolidated Financial Statements.** The Government Management Reform Act of 1994 (GMRA) requires IGs to audit and report to OMB on the Department's consolidated financial statements by a designated due date. In conjunction with the financial statement audit, the OA is also required to conduct evaluations of the Department's financial management system in accordance with the Federal Financial Management Improvement Act. These and other related requirements are discussed in detail in Chapter 12.
  - b. **Federal Managers' Financial Integrity Act.** The Federal Manager's Financial Integrity Act of 1982 (FMFIA) requires IGs to annually review assurance letters prepared by all Department elements.
  - c. **Semiannual Reports to Congress.** The IG Act requires the IG to prepare semiannual reports summarizing OIG activities during the 6-month periods ending March 31 and September 30. The semiannual reports are furnished to the Secretary of Energy (the Secretary) for transmittal to the appropriate Congressional committees or subcommittees no later than 30 days after the Secretary's receipt of the report. The IG is also required to report immediately to the Secretary when becoming aware of particularly serious or flagrant problems,



## CHAPTER 2 -- AUDITING IN THE DEPARTMENT OF ENERGY

abuses, or deficiencies relating to Department programs and operations. The semiannual reports:

- Describe significant problems, abuses, and deficiencies relating to administration of programs and operations identified during the reporting period;
- Describe the OIG's recommendations for corrective action with respect to the identified significant problems, abuses, or deficiencies;
- Identify each significant recommendation described in previous semiannual reports for which corrective action has not been completed;
- Summarize matters referred to prosecuting authorities and the resulting prosecutions and convictions; and,
- Summarize each OIG investigation, inspection, and audit report.

d. Council of the Inspectors General on Integrity and Efficiency. The Council of the Inspectors General on Integrity and Efficiency (CIGIE) was statutorily established as an independent entity within the executive branch by the "The Inspector General Reform Act of 2008," P.L. 110-409 to:

- Address integrity, economy and effectiveness issues that transcend individual Government agencies; and
- Increase the professionalism and effectiveness of personnel by developing policies, standards and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General.

Prior to the establishment of the CIGIE, the Federal Inspectors General operated under the auspices of two councils, The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) from the time established by Executive Order 12805, May 11, 1992 until the signing of P.L. 110-409.

e. Requests from Other IGs. From time to time, requests for audit assistance are received from the IGs of other departments and agencies. These requests impose additional non-statutory reporting responsibilities.

### **C. OIG ORGANIZATION AND FUNCTIONS**

The IG is the principal advisor to the Secretary for promoting economy and efficiency in Department programs, operations and administration and for preventing and detecting fraud, abuse and irregularities. Department programs and operations include the Federal Energy Regulatory Commission (FERC), the National Nuclear Security Administration (NNSA) and the Federal Power Administrations.

1. Organization Structure. The OIG consists of three major offices:

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- The Office of the Deputy IG for Audits and Inspections;
- The Office of the Deputy IG for Investigations; and
- The Office of the Assistant IG for Management and Administration

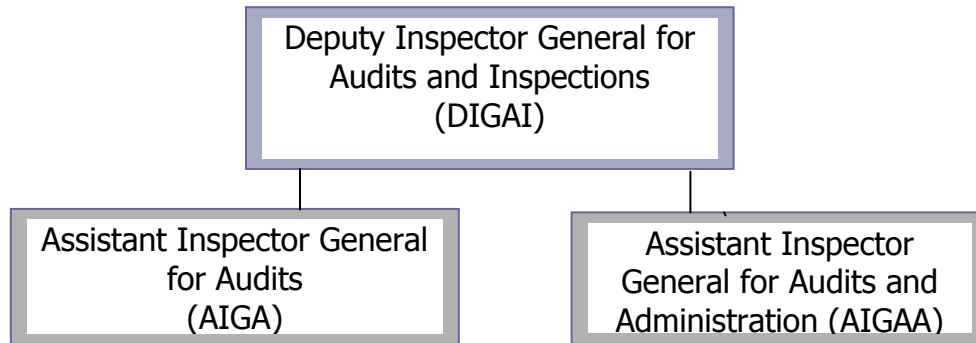
2. OIG Functions. For the Department's programs, operations and administration and for the Department's contractors, grantees and other funded activities, the OIG:

- Supervises, coordinates, and provides policy direction for audit, investigative and inspection activities related to promoting economy and efficiency and preventing and detecting fraud or abuse.
- Recommends policies and conducts, supervises or coordinates other activities carried out or financed by the Department for the purpose of promoting economy and efficiency or preventing and detecting fraud and abuse.
- Recommends policies for, and conducts, supervises or coordinates relationships between, the Department and other Federal agencies, State and local government agencies, and other nongovernmental entities with respect to (1) all matters relating to the promotion of economy and efficiency or the prevention and detection of fraud or abuse and (2) the identification and prosecution of participants in such fraud or abuse.
- Recommends action to correct problems, abuses and deficiencies noted in the course of audits, inspections and investigations.
- Monitors and reports on the progress of implementing actions to correct problems, abuses and deficiencies.
- Keeps the Secretary and the Congress fully and currently informed of potential and actual fraud and serious abuses, problems, and deficiencies.

### **D. OFFICE OF AUDITS STRUCTURE AND FUNCTIONS**

The OA provides policy direction, supervises, conducts and coordinates all audit activities for all Department programs and operations, including audits done under contract and those performed by the OA audit staff. The following chart shows the organization structure of the OA, which includes a Headquarters element and two operational components:

## OFFICE OF AUDITS



1. Office of Audits. The OA is headed by the DIGAI who reports directly to the IG. The DIGAI manages, coordinates, and has overall responsibility for policy and direction of all audits relating to Department programs and operations. The DIGAI provides liaison with Federal, state and local government auditors, as well as private audit organizations. The DIGAI also monitors implementation of audit plans and ensures that audits are performed in accordance with GAGAS and OA policies and procedures. The AIGAA and AIGA report directly to the DIGAI and provide the resources and specialized knowledge and experience to assist the OA in complying with the mandates of the IG Act and applicable amendments. Their responsibilities include supervising, coordinating and providing policy direction for auditing and reviewing the Department's programs and operations, including the operations of its contractors.

a. Headquarters Element. The Director, Planning, Administration and Quality Assurance (DPAQA), under the AIGAA, is the focal point for audit policy and program guidance with two areas of responsibilities. One area is audit planning, which includes policy development, workload planning, resource justification and application, strategic planning, performance measurement and reporting, and annual assessments. The second area is assistance provided to the DIGAI, through the AIGAA, in the management of audit resources including budget support, justification, and preparation, training and professional development, office administration, personnel management, contract administration, travel management and support, and quality assurance.

b. Operational Components. The two operational components are headed by the AIGA and by the AIGAA who are the focal points for all audits and attestation engagements. Within their respective areas, both are responsible for supervising and reviewing all audits of Department programs and operations including contractors and grantees.

2. Types of Audits and Attestation Engagements. The audits and reviews performed by or at the direction of the OA can be classified as performance, financial statement, other related financial, or attestation engagements.

a. Performance Audits. Performance audits provide assurance or conclusions based on evaluating sufficient, appropriate evidence against stated

criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the audit results to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. Chapters 10 and 11 provide specific guidance for conducting and reporting on performance audits. Performance audit objectives include:

- Program effectiveness to determine the extent to which a program is achieving its goals, objectives and intended results;
- Economy and efficiency to determine whether resources were used economically and efficiently to achieve program results or to analyze the relative cost-effectiveness of a program or activity;
- Internal or management controls to determine whether management had designed controls to provide reasonable assurance of achieving effective and efficient operations, reliable performance reporting, or compliance with applicable laws and regulations;
- Compliance to determine whether the purpose of a program, the manner in which it is conducted, and its outcome comply with applicable criteria such as laws, regulations, contract and grant provisions, and other requirements; and,
- Prospective analysis to provide analysis or conclusions about information that is based on assumptions about potential future events along with possible anticipatory actions that the audited entity may take.

b. Financial Statement and Other Related Financial Audits. Financial audits provide an independent assessment of and reasonable assurance about whether the Department's reported financial condition, results and use of resources are presented fairly in accordance with recognized accounting criteria. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements relating to financial transactions, systems and processes. Chapter 12 provides guidance for conducting and reporting on financial audits. Financial audits performed under GAGAS include financial statement audits and other related financial audits.

The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaim an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP)<sup>1</sup> or with a comprehensive basis of accounting other than GAAP.

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<sup>1</sup> Three authoritative bodies for generally accepted accounting principles are the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the sponsors of the Federal Accounting Standards Advisory Board (FASAB). GASB establishes accounting principles and financial reporting standards for state and local government entities. FASB establishes accounting principles and financial reporting standards for non-government entities. The sponsors of FASAB - the Secretary of the Treasury, the Director of the

## CHAPTER 2 -- AUDITING IN THE DEPARTMENT OF ENERGY

Other types of related financial audits under GAGAS provide for different levels of assurance and involve various scopes of work in conjunction with or as a by-product of a financial statement audit. For example, related financial audits can include providing special reports, such as for specified elements, accounts, or items of a financial statement, reviewing interim financial information, or auditing compliance with regulations relating to Federal award expenditures and other governmental financial assistance.

c. Attestation Engagements. Attestation engagements can cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion. There are three types of attestation engagements - an examination, a review, and agreed-upon procedures. An examination provides the highest level of assurance and consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter of the engagement is based on or in conformity with stated criteria in all material respects or whether an assertion is fairly stated in all material respects based on stated criteria. A review provides less assurance and consists of sufficient testing to express a conclusion about whether any information came to the auditor's attention on the basis of the work performed that indicates the subject matter is not based on or in conformity with the stated criteria or the assertion is not fairly stated in all material respects based on the criteria. Agreed-upon procedures consist of performing specifically identified procedures for a subject matter, and assurance is limited to the results of those procedures.

Examples of the subject matter of attestation engagements are:

- Entity's internal control over financial reporting;
- The effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- Compliance with requirements of specified laws, regulations, policies, contracts, or grants;
- Accuracy and reliability of reported performance measures;
- Allowability and reasonableness of contract or grant costs incurred or proposed; and,
- Quantity, condition, or valuation of inventory or assets.

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OMB, and the Comptroller General - jointly establish accounting principles and financial reporting standards for the Federal government.

## **CHAPTER 3**

### **GENERAL AUDIT POLICIES**

#### **A. SCOPE OF CHAPTER**

This chapter prescribes policies and procedures relating to staff competence, auditor independence, use of professional judgment, and the OA system of quality controls. The chapter also addresses other general matters including relying on the work of others, audit follow-up, scope impairments, informing OIG management about potential sensitive events and issues, and dealing with inquiries from the media, Congress, and other external organizations.

#### **B. STAFF COMPETENCE AND TRAINING**

According to GAGAS, the staff assigned to conduct an audit must collectively possess adequate professional competence for the required tasks. Staff members conducting audits should have (1) knowledge of GAGAS applicable to the type of work they are assigned and the education, skills and experience to apply this knowledge to the work; (2) general knowledge of the environment in which the audited entity operates and the subject matter under review; (3) ability to communicate clearly and effectively, both orally and in writing; and, (4) skills appropriate for the work being performed. For example, staff or specialist skills are needed in statistical sampling, if the work involves use of statistical sampling; information technology, if the work involves review of information systems; engineering, if the work involves review of complex engineering data; and, specialized knowledge in subject matters or audit techniques, if the work calls for such expertise.

Auditors performing work under GAGAS should maintain their professional competence through continuing professional education (CPE). It is primarily the responsibility of individual auditors to improve their professional competence and meet CPE requirements. The OA has quality control procedures to help ensure that auditors meet CPE requirements including documentation of CPE completed. Detailed training and professional development policies and procedures are discussed in the OA Administration Manual – Chapter 4. All OA auditors must comply with the prescribed training policies and procedures.

#### **C. INDEPENDENCE**

The OA and its staff, including contracted audit services personnel, are required to be independent in all matters relating to audit work. GAGAS establishes a conceptual framework that should be used to identify, evaluate and apply safeguards to address threats to independence. Independence comprises not only independence of mind but also in appearance.

1. **Personal Impairments and Threats to Independence.** The auditor is under a professional responsibility to maintain independence of judgment in planning and conducting audits and expressing opinions on programs, operations, and financial statements. The auditor must be independent in fact and in appearance. Personal impairments to independence of auditors result from relationships or beliefs that might cause auditors to limit the extent of inquiry, limit disclosure, or weaken or slant findings in any way. Circumstances in which OA staff members auditing Department activities

## CHAPTER 3 -- GENERAL AUDIT POLICIES

may encounter threats or personal impairments to independence either in fact or appearance include:

- Personal or financial relationships such as an immediate or close family member holding a significant position at the audited entity or an auditor having a direct or material indirect financial interest in the audited entity;
- Responsibility for managing an entity or making decisions that could affect operations of the entity or program being audited;
- Concurrent or subsequent performance of an audit by the same person who maintained the official accounting records when such services involved: preparing source documents or originating data; authorizing, executing, consummating or posting transactions; having custody of the entity's funds; or exercising authority on behalf of the entity;
- Preconceived ideas toward individuals, groups, organizations or objectives of a particular program that could bias the audit; and,
- Seeking employment with the entity being audited.

The following procedures will be followed to ensure that auditors and supervisors are aware of potential conflicts of interest, identify threats to independence, and ensure that auditors do not perform audits in instances when they have personal impairments or the appearances of personal impairments.

- a. Conduct of Employees. All OA employees will be provided a copy of the standards of conduct applicable to Departmental employees. These regulations are published as Title 10, Code of Federal Regulations (CFR), Part 1010. Also, employees must certify that they have received and read the handbook *Standards of Ethical Conduct for Employees of the Executive Branch* that includes Part I of Executive Order 12674 and 5 CFR Part 2635, dated August 1992.
- b. Ethical Principles. The following five ethical principles should be used to guide the work of auditors who conduct audits in accordance with GAGAS: the public interest; integrity; objectivity; proper use of government information, resources, and position; and professional behavior. Auditors should consider the facts and circumstances of each situation within the framework of these ethical principles. Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct audits in accordance with GAGAS.
- c. Outside Employment. All employees, regardless of grade or position, must seek advance approval for outside employment, from the Department's Office of Assistant General Counsel for General Law (Assistant GC), by filing a formal request (Exhibit A) through their Assistant Division Director (AD) and the DPAQA. In requesting approval, employees should estimate the number of hours that will be devoted to outside employment. Approval will be granted unless there is a determination that the proposed employment is expected to involve conduct prohibited by statute or regulation. This requirement applies to any form of non-Federal employment involving personal services. However, approval is not required for participating in activities of a nonprofit, charitable, religious, or

## CHAPTER 3 -- GENERAL AUDIT POLICIES

civic organization, unless the participation involves professional services or compensation is received. Once a request has been approved by the AD and the DPAQA, it will be forwarded to the Assistant GC for final approval. The Assistant GC will directly notify the employee, via email, of final approval for outside employment and send the employee a signed copy of the approved request form.

d. Financial and Other Disclosures. All OA auditors must prepare and submit required statements of employment, financial interests, and interests in energy concerns, as required by 10 CFR Part 1010. In addition to this financial reporting requirement, all OA employees must advise their supervisor if any of the following people are associated or employed by Department contractors, subcontractors, partnering members or grantees:

1. Spouses/partners
2. Children
3. Parents
4. Siblings
5. Other members of the household

Once notified, the supervisor will advise the DPAQA and the Counsel to the IG. The Counsel to the IG will forward the information to the Designated Agency Ethics Official. If appropriate, the supervisor, along with the DPAQA and Designated Agency Ethics Official, will address any potential conflicts or appearance issues through mitigation action. This will allow OIG activities to continue to be above reproach in this regard.

e. Procurement Integrity. When performing contract pre-award audits or when involved in the evaluation and selection of contractors to perform audit services, OA auditors and their supervisors will comply with the "Procurement Integrity" provisions of the Office of Federal Procurement Policy Act Amendments of 1988, as amended; and implementing regulations.

f. Threat Assessment. At the start of an audit effort, or when necessary during an audit effort, OA staff will perform an evaluation and document the assessment of threats to independence, including resolution (See Chapter 3, Exhibit C for Checklist).

g. Supervisory Responsibilities. Managers and supervisors shall be alert for personal impairments of their staff. All potential personal impairments will be discussed prior to the start of an audit, and the results of these discussions will be documented. Potential impairments, if any, will be considered in staff assignments. If potential impairments cannot be avoided in staff assignments, the impairments will be called to the attention of the responsible AIG and the DPAQA.

h. Reporting Potential Impairments. In the event that an OA employee or a contractor employee is assigned to an audit where he or she has, or believes he or she may be perceived to have, a personal impairment, the employee shall advise their AIG and the DPAQA in writing. In full consideration of all pertinent facts,



the AIG, in consultation with the DPAQA, shall determine whether the staff member should be removed from the audit. Factors considered may include the degree and nature of the impairment, the urgency of the review, and the availability of alternative staff to accomplish the pertinent mission. The AIG shall prepare a written response to the conflict of interest notification and the response, as well as the employee's written advisement, will be retained in the personnel file. See OIG Directive IG-900C, *Personal Impairments to the Objectivity of Office of Inspector General Personnel*, for additional information. Also, if the impairment is determined to exist but the employee cannot be removed from the audit, then the impairment must be disclosed (see section C.5., "Impairment Disclosure," in this chapter).

2. External Impairments and Threats to Independence. All auditors and supervisors should be alert for external threats that could restrict audits or interfere with the auditor's ability to form independent and objective opinions, findings, and conclusions. External threats to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. Examples of external threats to OA include:

- Interference or influence that improperly limits or modifies the scope of an audit;
- Interference with the selection or application of audit procedures or with the selection of transactions to be examined;
- Unreasonable restrictions on the time allowed to competently complete an audit;
- Interference with the assignment, appointment and promotion of audit personnel;
- Restrictions on funds or other resources that adversely affect the ability to carry out audit responsibilities;
- Authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report; and,
- Influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

OA staff should perform an evaluation and document the assessment of threats to independence. When an external threat condition is identified, auditors and supervisors will call the existence of the condition to the attention of the next level supervisor and attempts will be made to eliminate or mitigate the threat. If the threat can be mitigated, the supervisor must document the condition and how it was resolved. If the threat cannot be mitigated, the impairment will be brought to the attention of the responsible AIG and the DPAQA. The AIG, in consultation with the DPAQA, will decide whether to continue or decline to perform the audit and document the basis for the decision. If the threat cannot be mitigated and the audit is still performed, then the impairment must be disclosed (see section C.5., "Impairment Disclosure," in this chapter).

## CHAPTER 3 -- GENERAL AUDIT POLICIES

3. Organizational Independence. Chapter 2 describes OA statutory authority under the IG Act and its organizational structure within the OIG and the Department. The OA reporting level within the Department generally provides for reasonable independence in performing audits and in reporting audit results. Staff should conduct audits in a manner that continually protects the OA from any organizational impairment. If auditors or supervisors believe they have identified an organizational impairment, they should immediately notify the DPAQA in writing.
4. Non-Audit Services. Sometimes an audit organization may perform other professional services (non-audit services). Audit organizations that provide non-audit services must evaluate whether providing the services creates an independence impairment, either in fact or appearance, with respect to entities audited. For example, when performing non-audit services, audit organizations will avoid all non-audit services that involve performing management functions, making management decisions, or performing services that are significant or material to the subject matter of audits or result in auditing its own work. However, GAGAS describes circumstances when certain non-audit services that do not impair auditor independence can be performed, such as providing technical advice or expertise. All requests for non-audit services will be processed through the DPAQA. The OA will consider requests for non-audit services and will ensure that any non-audit services performed comply with GAGAS and do not impair the independence of the OA or its auditors. A checklist is provided in Exhibit C that can be used by OA staff as part of request consideration.
5. Impairment Disclosure. If an audit must be performed in spite of an identified independence impairment, it is the OA policy to fully disclose the impairment(s) and include a modified GAGAS compliance statement in the scope section of the audit report. The modified GAGAS statement should disclose the impairment and how the impairment affected, or could have affected, the audit and the assurance provided.
  - a. If impairment to independence is identified after the audit report is issued, the DIGAI, AIGAA and DPAQA should be notified. The DIGAI should assess the impact on the audit. The impairment, the subsequent review and final resolution must be fully documented. If the DIGAI concludes that the audit was not performed in accordance with GAGAS, the DIGAI should determine the impact on the auditor's report and notify entity management, those charged with governance, the requesters or regulatory agencies that have jurisdiction over the audited entity and persons known to be using the audit report. In addition, the report, if posted on the publicly accessible Web site, should be removed along with posting a public notification that the report was removed.

### **D. PROFESSIONAL JUDGMENT**

OA auditors must use professional judgment in planning and performing audits and in reporting the results. Professional judgment includes exercising reasonable care and professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence. Exercising professional judgment means using sound judgment in establishing audit scope, selecting methodologies and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting tests and procedures and in evaluating and reporting audit results.

## CHAPTER 3 -- GENERAL AUDIT POLICIES

When considering audit risk, auditors must also exercise professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported.

Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that an auditee's management is dishonest nor of unquestioned honesty. Believing that auditee management is honest is not a reason to accept less than sufficient, appropriate evidence.

Auditors should use sound professional judgment in determining the audit standards that apply to the work to be conducted. Auditors must document any determinations that certain standards do not apply to the audit. In situations where a standard is applicable to an audit but was not followed, auditors must disclose that fact in the scope section of the audit report and include a modified GAGAS compliance statement. The modified GAGAS statement should describe the applicable standard(s) or requirement(s) not followed, why not followed, and how the audit and the assurance provided were affected or could have been affected.

### **E. QUALITY CONTROL/QUALITY ASSURANCE**

OA internal quality controls are intended to result in audits that are performed in accordance with GAGAS and OA policies and procedures. To ensure quality work, the OA performs annual internal quality assurance reviews and participates in periodic external peer reviews. Leadership with the OA will assume responsibility in assuring the quality of audits performed under GAGAS and ensuring communication of policies and procedures relating to quality. Such policies and communications encourage a culture that recognizes that quality is essential in performing GAGAS audits.

1. Internal Quality Control System. This Manual, taken in total, is a compilation of policies and procedures that should result in quality audits and reports. Procedures that are particularly important to this process include:
  - a. Supervisory Review. All audit work and resulting reports will be subject to adequate and timely supervisory review. Chapter 4 discusses supervision responsibilities at all staff levels and the timeliness and documentation of supervisory reviews.
  - b. Technical Assistance. The Technology Audit Group (TAG) will facilitate the deployment of technology to all audit groups and will provide assistance, as appropriate, for audits using computer-assisted or other advanced audit techniques. Chapter 7 discusses various advanced audit techniques the OA may use for conducting audits.
  - c. Report Referencing. All draft and final reports will be referenced prior to issuance to ensure that they are supported by sufficient, appropriate evidence with appropriate supervisory review. Chapter 8 discusses additional details on report referencing.
  - d. TeamMate. OA internal quality control system includes TeamMate, which provides a common platform for documenting, reviewing, storing and

sharing work during and after the audit. See Chapter 6 for details of documenting audit work in TeamMate and also the TeamMate EWP Protocol.

2. Quality Assurance Program. The OA has implemented a Quality Assurance (QA) Program that provides audit management with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The QA Program is executed primarily through the annual quality assurance review. In addition, the OA participates in an external quality assurance program that consists of periodic external peer reviews. Exhibit B discusses the details of the OA QA Program and external peer reviews.

The OA will analyze and summarize, in writing, the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with communication of deficiencies noted to appropriate personnel and recommendations for corrective action.

**F. OTHER MATTERS**

This section sets forth OA policies with respect to (1) relying on the work of others; (2) following-up on prior audit findings and recommendations that impact current objectives; (3) limitations on access to auditee records and employees; and, (4) keeping audit management informed of potentially significant issues and external inquiries.

1. Relying on Work of Others. It is OA policy to coordinate and cooperate with other Federal, state and local governmental auditors in auditing programs of common interest in order to reduce the amount of work required to accomplish audit objectives and avoid duplicate audit effort. In conducting an audit, auditors may rely on the work of others to the extent feasible once they are satisfied with the quality of the other auditors' work by appropriate tests or by other acceptable methods. OA auditors should determine whether the other audit/non-audit organizations have an appropriate internal quality control system in place and whether the organizations participate in an external peer review program. In determining whether to rely on the work of others, the OA auditor should also consider the following guidance.

a. External Auditors. When the other auditors are external auditors, tests should include making inquiries into the professional reputation, qualifications, and independence of the auditors and obtaining the latest peer review report and the accompanying letter of comment. OA auditors should perform procedures and tests to determine the reliance they can place on the external auditor's work. Procedures could include reviewing the other auditor's audit program, procedures, supporting documentation, internal control assessments, and conclusions, and performing additional testing as considered necessary.

b. Internal Auditors. When the other auditors are internal auditors, tests should include determining whether the auditors (1) are competent; (2) comply with applicable standards; (3) are located appropriately in the organization to be free from personal or external impairments to independence and be able to conduct audits objectively; and, (4) perform work that is acceptable by examining, on a test basis, the documentary evidence of the work performed. These tests may either review some of the transactions, balances or subject

matters the internal auditors examined, or review similar transactions, balances, or subject matters. Based upon this review, OA auditors would decide whether to accept the work of the internal auditors. See also, in Chapter 15, the OIG's assessment of allowable cost audits conducted by internal auditors participating in the Cooperative Audit Strategy.

c. Non-auditors. When relying on the work of non-auditors (consultants, experts, specialists, etc., other than those hired to assist in the audit), OA auditors should be satisfied as to the non-auditors' professional reputation, qualifications and independence from the organization, program, activity or function under audit. In addition, OA auditors should obtain an understanding of the methods and significant assumptions used by the non-auditors. In assessing non-auditor's work, OA auditors should consider whether to review the non-auditor's procedures, work program, results, and supporting documentation and conduct supplemental tests of the non-auditor's work.

d. Access to Support Documentation. OA auditors need access to the documentation supporting the work of other auditors and non-auditors to satisfy certain requirements, as stated above. For documentation containing restricted information, guidance in Chapter 6 should be followed. Arrangements need to be made to ensure that documentation will be available upon request to other government audit organizations. All contractual arrangements for government audits should include provisions for access to supporting documentation.

e. Disclosure of Division of Responsibility. When OA auditors decide to rely on the work of others, but do not take full responsibility for that work, OA auditors should indicate in the scope section of the audit report the division of responsibility between the portion of work they conducted and the portion and magnitude of work conducted by others. If other auditors' work is used only for background or informational purposes and is not material or significant to the audit report, the OA audit report can refer to the other auditors' work even if the OA auditors did not assess its reliability. In these situations, OA auditors need only cite the information and its source in the audit report.

2. Audit Follow-Up. Management of the audited entity is primarily responsible for taking corrective actions and following-up on prior audit recommendations. However, OA auditors should exercise due professional care by ensuring that they have considered the results of prior audit work and have determined whether entity management has taken appropriate and timely corrective actions. Chapter 9 provides additional guidance on audit follow-up and the Departmental Audit Report Tracking System (DARTS).

3. Limitations on Access to Auditee Records and Employees. Access to records limitations or refusal by officials or employees of the auditee to meet with the auditors are external scope impairments that can restrict an auditor's ability to render objective opinions and conclusions. If OA auditors encounter access limitations, they should be aware that, in accordance with the IG Act, the OIG is authorized to:

- Have access to all records, databases, information systems, reports, audits, reviews, documents, papers, recommendations or other material available to

## CHAPTER 3 -- GENERAL AUDIT POLICIES

applicable Departmental elements that relate to programs and operations for which the IG has responsibilities;

- Request from any Federal, state or local governmental agency, or unit thereof, such information or assistance as may be necessary for carrying out the duties and responsibilities provided by the IG Act;
- Receive and investigate complaints or information from Department employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, mismanagement, gross waste of funds, abuse of authority, or a substantial and specific danger to the public health and safety; and,
- Require by subpoena the production of all information, documents, reports, answers, records, accounts, papers and other data and documentary evidence necessary in the performance of functions assigned by the IG Act.

Although the OIG is not required to give advance notice or seek the approval of any official in the Department before conducting audits, auditors should attempt to keep the auditee officials and employees informed of audit plans and to otherwise maintain positive working relationships to the extent possible. Accordingly, it is OA policy that auditors shall attempt to informally resolve access problems before proceeding to formal procedures.

When scope limitations exist, such as restrictions on access to records, government officials or other individuals needed to conduct the audit, auditors must include a modified GAGAS compliance statement in the scope section of the audit report. The modified GAGAS statement should disclose the scope limitation and how the limitation affected, or could have affected, the audit and the assurance provided

- a. Documenting and Reporting Access Problems. In conducting audits, auditors shall aggressively follow-up on all limitations, delays, or refusals by the auditee to provide access to records or employees. When auditors do encounter access problems, they should maintain a record of all discussions held and actions taken and promptly notify their supervisors when access issues cannot be resolved informally with the auditee. Supervisors will promptly notify their AIG, and the AIG will promptly notify the DPAQA and DIGAI.
- b. Enforcement and Subpoena Authority. Although the IG can subpoena various information and documentary evidence in the performance of assigned responsibilities, this authority will normally be used only after appropriate consideration has been given to other means for obtaining the desired information or records. If auditors believe that a subpoena is vital for conducting their audit, they should prepare a request in accordance with the guidance in OIG Directive IG-916, *Issuance of Inspector General Subpoenas*, and forward the request through their AIG to the DPAQA and DIGAI for concurrence and further processing.
- c. Access to Classified Information. OIG personnel will maintain appropriate security clearances to access classified information or secure facilities. Prior to visiting a secure facility, OIG staff will arrange for the

## CHAPTER 3 -- GENERAL AUDIT POLICIES

submission of Department Form 5631-20, *Request for Visit or Access Approval*, to the OIG Headquarters Security Officer, Human and Administrative Resources, Office of Management and Administration.

4. Keeping OIG Management Informed and External Inquiries. The nature of work performed in the OIG often involves areas of high visibility or considerable interest to both internal and external parties. Events can occur or issues develop concerning which the AIGs, DIGAI or IG should be promptly informed so that upper-level management can take appropriate and timely action. Examples of such events include issues that are potentially significant and external inquiries from the media, Congress, and other parties.

a. Potentially Significant Issues. All auditors are responsible for keeping their supervisors and the AIGs informed of potential significant events, problem areas or other issues involving high visibility within the Department. This includes significant findings, access to records limitations, potential legal proceedings, and other significant issues. The AIGs will determine which and how such items will be brought to the immediate attention of the DIGAI. For urgent matters, the DIGAI should be promptly informed by telephone, facsimile, or e-mail. It is the responsibility of the DIGAI to keep the IG informed of appropriate matters. Responsibilities and procedures for informing the DIGAI and the Office of Investigations of indications of fraud and other illegal acts are discussed in Chapter 4.

b. Media Inquiries. It is OIG policy that all media inquiries are responded to by the OIG Media Liaison to ensure consistency of approach and provide accurate and complete data. In accordance with OIG Directive IG-905F, *Media Inquiries*, the following procedures will apply to all OA auditors and staff for all contacts by the media:

(1) Referral to the OIG Media Liaison. If OA staff members at Headquarters or field offices are contacted by the media, they are to neither provide any information nor answer any questions. Rather, they shall advise the media inquirer that all media inquiries should be directed to the OIG Media Liaison. The staff member shall then immediately advise the OIG Media Liaison, the DPAQA, and their AIG about the media contact.

(2) Involvement Ends After Referral. Once the OA staff member has referred the requester to the OIG Media Liaison and has advised management, the staff member has no further responsibility in this matter and shall not make any further comment, except as directed by the OIG Media Liaison, the DPAQA, or their AIG.

(3) Disclosure. OA staff members should be aware that there may be legal or policy reasons for withholding information from media representatives; and, therefore, it may be appropriate for the OIG Media Liaison to disclose less than the full amount of information available. In particular, the OIG Media Liaison will release information on ongoing investigations and audits only with the specific approval of the DIGAI and in accordance with OIG Directive IG-905F.

## CHAPTER 3 -- GENERAL AUDIT POLICIES

- c. Congressional Inquiries. It is OIG policy to cooperate with Congress and to respond to Congressional inquiries as fully as possible and in a timely fashion. All Congressional inquiries, both oral and written, will be referred to and coordinated through the Counsel to the IG in accordance with OIG Policy, *Congressional Inquiries*.
- d. GAO Inquiries. All GAO inquiries should be referred to the DIGAI, or appropriate OAI AIG, or designee(s) for response in accordance with OIG Directive IG-915 E, *Coordination with the Government Accountability Office*.
- e. DCAA. Contacts with the Defense Contract Audit Agency (DCAA) should be documented by memorandum and provided to the responsible AIG when substantive matters are discussed.
- f. Subpoenas or Depositions. OA employees or former employees may be requested to answer questions pertaining to information and material obtained, developed, or acquired during the course of official duties or because of the employee's official status with the OIG. Specifically, employees may be subpoenaed by courts or other authorities as witnesses to produce documents or to give testimony or depositions. However, in accordance with 10 CFR, Part 202, *Production or Disclosure of Material or Information*, no OA employee may answer a subpoena or other demand, or give a deposition relating to information or material developed or acquired during the course of official duties or because of the employee's official status with the OIG, without approval of the Department's General Counsel. Therefore, any employee or former employee faced with such a request shall notify the IG, through appropriate notification procedures, in accordance with OIG Directive IG-926C, *Notification of the Inspector General When An Employee or Former Employee Receives a Subpoena or Other Court Demand*.
- g. Requests for Confidentiality. Occasionally, auditors may receive information from individuals who request confidentiality. Auditors who encounter this situation should immediately discuss the matter with their supervisors. In discussing the information with officials outside of the OIG, auditors should exercise extreme care not to disclose the source of any confidential information received. If appropriate, such matters should be coordinated with the Office of Investigations.



**REQUEST FOR APPROVAL OF OUTSIDE EMPLOYMENT**

**THROUGH:** \_\_\_\_\_

Supervisor

\_\_\_\_\_  
Title

**TO:** Office of Assistant General Counsel for General Law (GC-77)

**FROM:**

**DATE:**

In accordance with 5 C.F.R. 3301.103, I hereby request approval to engage in outside employment as described below:

\_\_\_\_\_  
Name of prospective employer

\_\_\_\_\_  
Type of work (e.g., accountant, book editor, sales associate)

\_\_\_\_\_  
Proposed work hours (e.g., 4 hours on Saturdays)

\_\_\_\_\_  
Proposed dates of employment (e.g., 11/2014-1/2015 or starting 11/2014)

**APPROVED:**

\_\_\_\_\_  
Supervisor's signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Counselor's signature

\_\_\_\_\_  
Date

## **QUALITY ASSURANCE PROGRAM**

### **A. BACKGROUND**

GAGAS require audit organizations to have an internal quality control system that provides reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures. Each audit organization must document its quality control policies and procedures and communicate them to its personnel.

The OA quality control system encompasses actions taken by individual auditors, auditors-in-charge, team leaders, and audit management to ensure that audit work complies with GAGAS and applicable laws and regulations. Supervisory reviews of audit programs, workpapers and audit results along with division and Headquarters reviews of audit products and the independent referencing of audit reports are part of the quality control system. In addition, controls over personnel hiring, promotions and training provide assurance that individual auditors are competent and meet GAGAS requirements for CPE. Annual financial disclosure statements provide general assurance that auditors do not have impairments to their independence, and audit management is responsible for assigning and managing audit staff resources in a manner that promotes objectivity and independence.

An effective quality control system also includes an effective quality assurance program. The CIGIE's *Audit Committee Policy Statement on Internal Quality Control Systems and External Peer Review Programs* (Statement) states that the scope of an internal quality assurance review should include a determination of the degree of compliance with GAGAS, applicable OMB Circulars, applicable CIGIE audit policy statements, and appropriate statutory provisions applicable to an audit organization. The Statement also establishes required characteristics for the leadership, organization, documentation and reporting of internal quality assurance programs.

### **B. OFFICE OF AUDITS QUALITY ASSURANCE PROGRAM**

The OA Quality Assurance Program (QA Program) provides audit management with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The QA Program is executed primarily through annual quality assurance review (QA review).

1. **Purpose.** The purpose of the QA Program and QA review is to provide an evaluation of: (1) adherence to professional standards and legal and regulatory requirements; (2) whether the quality control system has been appropriately designed; and, (3) whether quality control policies and procedures are operating effectively and complied with in practice.
2. **Scope.** The QA Program encompasses the entire audit process within the OA and includes all ongoing and completed audits and reports issued by various field offices during each fiscal year. Controls over personnel qualifications and independence will be reviewed approximately every three years and spot checks of those controls may be made as part of QA reviews of individual audits.

3. Methodology. The QA Program uses peer review checklists developed by the CIGIE and an internal OA QA checklist as a starting point for annual review. Review steps will address pertinent portions of CIGIE checklists and expand on areas of vulnerability. At a minimum, all reviews cover: (1) approval and execution of audit programs; (2) supervisory review of workpapers and audit work; and, (3) cross-indexing and independent referencing of audit reports. Further, review focuses on an aspect of the audit process such as audit planning, preparation of audit reports, documentation of evidence in workpapers, audit and personnel management, and other areas that could affect the organization's compliance with GAGAS. In addition, QA reviews ensure that recommendations from prior external peer and internal QA reviews have been addressed.

### **C. PROGRAM IMPLEMENTATION RESPONSIBILITIES**

The DPAQA is responsible for implementing the QA Program. Under the direction of the DPAQA, a senior auditor (QA Reviewer) plans, executes, and manages the annual QA review and prepares the overall results for reporting to the DIGAI, through the DPAQA, and for the briefing of the OAI senior management team.

1. Planning. The DPAQA and the QA Reviewer develop the annual QA review plan. Focus topics for QA review are selected based upon organizational needs as expressed by the DIGAI and each Division Director (DD).
2. Execution. QA reviews are conducted according to applicable GAGAS. The QA Reviewer develops specific review steps to collect and analyze data, brief field managers, and prepare a written report or memorandum. The QA review and its conclusions are documented in workpapers that are prepared in TeamMate and identify the source and extent of positive and negative conditions reported.
3. Management. The QA Reviewer directs and supervises the efforts of any staff level auditors assigned to the review. If needed, auditors from the field offices will be temporarily assigned to Headquarters to participate in the QA reviews. The QA Reviewer has overall responsibility for conducting the reviews, documenting the results, and preparing the reports or memoranda. These steps will not require supervisory approval by the DPAQA.
4. Reporting. The QA Reviewer, or assigned QA team member, discusses the QA review results, findings, and recommendations with the responsible team leaders and ADs and prepares a memorandum for each audit selected. Disagreements on findings and recommendations that cannot be resolved between the responsible AD and QA Reviewer will be elevated to the DD, AIG, DPAQA, or DIGAI for resolution. The QA Reviewer prepares a draft summary report or memorandum on the QA review results overall with assistance from assigned QA team members. The DPAQA is responsible for providing written comments on the draft summary report's or memorandum's findings and recommendations before the report or memorandum is finalized. The final summary QA report or memorandum with the DPAQA's comments will be issued internally within OA by the DPAQA or QA Reviewer and addressed to the DIGAI. Because the report or memorandum is an internal summary document, referencing of the report or memorandum is not required unless deemed necessary by the DPAQA or QA Reviewer.

5. Staffing. Before each QA review, the DPAQA or QA Reviewer estimates whether assistance of staff auditors will be needed and the anticipated length of the assignment. The responsible AIG is requested to identify auditors available for this temporary assignment. In no circumstances will auditors participate in a QA review of audits in their current division or in a field office to which they were assigned in the previous two years. The duration of any temporary assignment to a QA review team will depend on the complexity of the review topic, the number of offices to be reviewed and the total number of staff assigned. The auditor's assigned division is responsible for the travel costs of auditors assigned to QA reviews.
6. Frequency of Reviews. The OPAQA conducts QA reviews each fiscal year. Each field office is reviewed at least once every three years on a rotational basis. The QA Reviewer, in coordination with the DPAQA, selects the specific audits that will be reviewed at each field office. The aim of the selection is to review a cross-section of different types of audits and work performed by different auditors-in-charge at each office in various stages of completion.
7. Follow-up Responsibilities. The QA Reviewer follows up and documents prior quality assurance and external peer review recommendations made to OA management. The results of follow-up reviews are reported to the DIGAI as part of the annual QA review.

**D. EXTERNAL PEER REVIEW**

Audit organization performing audits in accordance with GAGAS must have an independent external peer review every three years. The OA participates in a peer review program and receives a peer review at least once every three years by an independent organization, usually an Office of Inspector General from another Federal agency that is a member of the CIGIE. These reviews are performed in accordance with the CIGIE guidelines. Likewise, the OA participates in performing peer reviews at another Federal agency every three years.

The external peer review will determine whether, for the period under review, the OA internal quality control system was suitably designed and whether the OA is complying with its quality control system in order to provide OA with reasonable assurance of conforming to applicable professional standards. The OA will take remedial, corrective actions as needed based on the results of the peer review. External audit organizations shall make peer review reports publicly available.

An audit organization's noncompliance with the peer review requirements results in a modified GAGAS compliance statement. An audit organizations compliance (or noncompliance) with the requirements for a system of quality control are tested and reported as part of the peer review process and do not impact the GAGAS compliance statement.

### Assessing Threats to Auditor/Inspector Independence Checklist

At the start of an audit/inspection or when necessary, during the review, this checklist **will** be completed or updated by audit or inspection teams in the TeamMate project file to document the assessment of threats to the team's independence (GAGAS 3.07, 3.59 and 3.88; CIGIE QSIE Pgs. 2 through 6). The checklist can also be scanned into the TeamMate project file upon its completion or update.

This checklist should also be used by auditors or inspectors to evaluate their independence before agreeing to provide a non-audit/inspection service to the entity being reviewed. Some examples of acceptable non-audit/inspection services that could be performed, with approval, include attendance at agency working groups as a non-voting member; providing advice to an entity to improve its operations based on the results of other audits; and educating the entity on matters within the technical expertise of the auditors.

	YES	NO
<b>1. Does a threat exist?</b>		
a) Self-interest threat (i.e., threat that a financial or other interest will inappropriately influence a team member's judgment or behavior)?		
b) Self-review threat (i.e., threat that a team member who has provided non-audit/inspection services will not appropriately evaluate the results of services performed when forming a judgment significant to the review)?		
c) Bias threat (i.e., threat that a team member will, as a result of political, ideological, social or other convictions, take a position that is not objective)?		
d) Familiarity threat (i.e., threat that aspects of a team member's relationship with the reviewed entity's management or personnel, such as a close or long relationship, or an immediate or close family member, will lead a team member to take a position that is not objective.)?		
e) Undue influence threat (i.e., threat that external influences or pressures will affect a team member's ability to make independent and objective judgments)?		
f) Management participation threat (i.e., threat that results from a team member taking on the role of management or otherwise performing management functions on behalf of the entity being reviewed)?		
g) Structural threat (i.e., threat that the audit/inspection organization's placement within a government entity, in combination with the structure of the government entity being reviewed, will affect the audit or inspection team's ability to perform work and report results objectively)?		
<i>If no threats were identified, proceed with the review effort. If a threat is identified, go to Step 2</i>		
<b>2. Does the threat relate to a non-audit/inspection service?</b>		

<b><i>If no, go to Step 3. If yes, go to Step 2a</i></b>		
a) Is the non-audit/inspection service prohibited in GAGAS paragraphs 3.36 or 3.49 through 3.58; CIGIE QSIE Pg.3 (e.g., significant participation in the reviewed entity’s management responsibilities such as setting policies; designing, implementing or maintaining internal controls or monitoring procedures; or providing significant services such as designing or implementing hardware/software)?		
<b><i>If no, go to Step 3. If yes, independence is impaired, and the auditor/inspector should not proceed with the audit.</i></b>		
<b>3. Is the threat significant?</b>		
<b><i>If no, the auditor/inspector can proceed with the review. If yes, go to Step 3a.</i></b>		
a) Identify, and apply safeguards, such as those cited in GAGAS paragraphs 3.17 through 3.19; CIGIE QSIE Pgs.3-5. The discussion of safeguards should involve the supervisor (i.e., Team Leader, Assistant Director, Division Director); Director of Planning Administration and Quality Assurance; responsible Assistant Inspector General; and/or Counsel to the IG, if applicable, and include this documentation in the TeamMate project file.		
b) Determine whether the threat has been eliminated or reduced to an acceptable level and include documentation in the TeamMate project file.		
<b><i>If the threat has been eliminated or reduced to an acceptable level, the auditor/inspector can proceed with the review. If not, independence is impaired, and the auditor/inspector should not proceed with the review.</i></b>		
<b>4. Did you document all the above steps in TeamMate?</b>		
<b>Name(s):</b>	<b>Date:</b>	

## **CHAPTER 4**

### **GENERAL FIELD WORK POLICIES**

#### **A. SCOPE OF CHAPTER**

This chapter discusses general OA policies that apply to all audit fieldwork.

#### **B. FIELD WORK REQUIREMENTS**

Essential to all audits are planning, audit documentation, advanced audit techniques, supervision, and handling potential instances of fraud, abuse and illegal acts.

1. **Planning.** Effective planning is an essential fieldwork standard for all audits. Work must be adequately planned for OA audits, examinations, and reviews to accomplish the objective. Chapter 5 discusses the OIG's workload planning process to identify audit areas and to assure adequate audit coverage, efficient use of resources, and consistency and quality in all OA audits. In addition, Chapter 5 discusses planning considerations for an audit, such as deciding on the audit objective, understanding applicable criteria, and considering internal controls, risk, and materiality.
2. **Audit Documentation.** Chapter 6 discusses policies and practices for preparing audit documentation that provides a record of information and evidence supporting the findings, conclusions and recommendations contained in an OA report and to comply with GAGAS.
3. **Advanced Audit Techniques.** Chapter 7 provides policies and practices to be followed when using computers, ensuring that data obtained from computer-based systems is reliable and accurate, and utilizing computer-assisted or other advanced audit techniques.
4. **Supervision.** Audit supervision is discussed in Section C of this chapter.
5. **Fraud, Abuse and Illegal Acts.** The auditor's responsibilities for fraud, abuse, and illegal acts that are encountered during an audit are discussed in Section D of this chapter.
6. **Specific Requirements.** Chapters 10, 12, 13, and 15 provide detailed guidance for conducting fieldwork for different types of audits. Specifically, Chapter 10 discusses performance audits, Chapter 12 discusses financial statement audits, Chapter 13 discusses contract audits, and Chapter 15 discusses assessments relating to costs incurred and claimed of the Department's management and operating (M&O) contractors (e.g., SCIC).

#### **C. SUPERVISION**

Effective supervision is essential to the overall quality of an audit. Audit supervision involves providing sufficient guidance and direction to the audit staff to ensure that audit objectives are addressed and applicable standards are followed. In addition, supervision requires staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training. Generally, higher-level supervisors can provide a broader perspective to help focus and sharpen audit objectives, select effective audit methodologies and reporting approaches, and determine the scope of work or resources that should be devoted to an

## CHAPTER 4 -- GENERAL FIELD WORK POLICIES

audit in relation to other audit requirements and priorities. As an audit progresses, timely supervisory reviews can help the audit team deal with unanticipated situations and identify additional work needed to substantiate and refine audit conclusions.

1. Responsibilities. The DIGAI and the AIGs are ultimately responsible for all audit assignments and for ensuring that their staffs receive appropriate guidance. The AIGs have responsibility for providing in process reviews of selected audits on behalf of the DIGAI. Proper supervision is necessary throughout an assignment, with each level of staff having specific responsibilities for ensuring that audits are performed in accordance with GAGAS and OA policies and procedures. The various OA staffing levels and respective responsibilities follow:

- Auditor – The auditor performs assigned audit work in accordance with GAGAS and OA policies and procedures. Depending on experience, skills and job knowledge, the auditor will normally have responsibility for an audit segment or specific audit steps.
- Auditor-in-Charge – It is the responsibility of the Auditor-in-Charge (AIC) to direct each audit through its various phases from planning to reporting, and to ensure that the audit is performed in accordance with GAGAS and OA policies and procedures. AIC responsibilities include preparing audit programs, gathering, and analyzing data, documenting audit evidence, and preparing initial report drafts. The AIC provides the first level of review for work performed by assigned auditors. A more detailed description of AIC responsibilities is found in Exhibit A.
- Team Leader – The Team Leader (TL) ensures that audits are performed in accordance with GAGAS and OA policies and procedures. TLs provide the first level of review of audit programs, overall audit supporting documentation, and tentative findings. A more detailed description of TL responsibilities is found in Exhibit B.
- Assistant Division Director – The AD provides supervision and professional leadership for all audit work in their area of responsibility to ensure that GAGAS and OA policies and procedures are followed. ADs are responsible for completing the *Assistant Division Director Checklist* found in the TeamMate EWP Library or audit file for every audit and attestation engagement.
- Technical Monitor – A Headquarters Technical Monitor (TM), serving under each AIG, provides assistance to field staff (i.e., ADs, TLs, and AICs) during the performance of audits or engagements. TMs are involved throughout the audit or engagement process and participate in key meetings and major decisions pertaining to an audit or engagement. TMs review all draft and final reports. A more detailed description of the TM responsibilities is found in Exhibit C of this chapter.
- Division Director and AIG – A DD, who serves under an AIG, has responsibility for field office direction, supervision, and final review of all



audit work in the areas of cognizance. DDs and AIGs ensure that audits are performed in accordance with GAGAS and OA policies and procedures.

2. Timeliness of Supervision. Supervision is a continuous process. To be effective, it must be timely and include sufficient interim checks throughout the audit to ensure that work is properly planned, on schedule, and is being performed in accordance with GAGAS and OA policies and procedures. Effective supervision requires AICs to keep their TLs informed and for TLs and their supervisors to make adjustments in audits, as necessary, to deal with changing or unanticipated circumstances. However, the proficiency and experience of the auditors and the difficulty of the audit assignment will affect the extent and timing of supervision required. To ensure that supervision is timely, interim reviews of audit documentation should be completed by AICs at least bi-weekly and by TLs or ADs at least monthly. Furthermore, TLs and their supervisors are responsible for:

- Providing adequate guidance and direction throughout an audit, including suitable instructions to subordinates at the beginning of an audit commensurate with the abilities and experience of the assigned staff;
- Approving audit programs in advance and ensuring that programs are carried out and the audit objective is met, unless deviations are justified and authorized in writing; and,
- Monitoring audit progress to ensure that auditors exercise professional judgment, work is being conducted in accordance with GAGAS and OA policies and procedures, and audit findings and conclusions are adequately supported.

3. Documentation of Supervision. Supervisors are responsible for ensuring that appropriate evidence of their reviews is documented and retained in the TeamMate audit file and in accordance with the procedures provided in Chapter 6. Although signoffs of workpapers in TeamMate indicate that the workpaper has been reviewed, it does not document the points raised or the guidance provided by the reviewer. Therefore, TeamMate coaching notes will be used to document any points, questions, comments, or issues raised by a reviewer along with the auditor's response and the reviewer's ultimate acceptance. Differences of opinion between the auditor and the reviewer concerning accounting and auditing issues will be documented and presented to higher-level supervisors to be resolved. The AD's supervision will also be documented using the *Assistant Division Director Checklist* located in the TeamMate EWP Library or audit file.

**D. FRAUD, ABUSE, AND ILLEGAL ACTS**

Auditors are generally not responsible for conducting "investigations" of fraud, abuse, or illegal acts. However, auditors are required to be aware of the types and characteristics of illegal acts associated with the area being audited in order to be able to identify indications that these acts may have occurred and be alert to situations or transactions that could be indicative of such acts. Auditors who identify questionable activities have certain responsibilities concerning (1) notifying OAI management; (2) coordinating with the Office of Investigations, through channels designated by the DIGAI; and, (3) if necessary, adjusting planned audit steps with

## CHAPTER 4 -- GENERAL FIELD WORK POLICIES

supervisory approval. Notification of OAI management, and coordination within OAI and with the Office of Investigations should be timely and not delayed until the end of the audit.

1. Notifying OAI Management. When OA personnel become aware of possible criminal or civil violations through audit activities, or otherwise become aware of allegations of fraud, waste, or abuse, they are to immediately notify their supervisor who may ultimately consult an AIG. The AIGs are responsible for notifying the DIGAI. The AIC is responsible for documenting any indications of potential criminal violations and other types of illegal conduct. At a minimum, the documentation should describe the statute, regulation, etc., believed to be violated and the questionable activities or indications of illegal acts. If the questionable activities were discussed with Office of Investigations personnel at the local level, the Confirmation of Referral (described in section C.2.a., below) should satisfy the documentation requirement. Otherwise, a Memorandum of Referral should be prepared. In either case, the memorandum must be sent through the DD and AIG to the DIGAI. A copy of the documentation prepared, including any Memorandum of Referral or Confirmation of Referral, should be retained. This documentation should be added to the TeamMate audit file if reference is made to the referral in an audit report. The AIG will ensure that any Memorandum of Referral or Confirmation of Referral sent to the DIGAI is forwarded to the AIG for Investigations (AIGI) and the appropriate Assistant Special Agent-in-Charge.

2. Coordination with the Office of Investigations. OIG policy requires all OA personnel having knowledge of possible criminal violations to immediately refer the information to the Office of Investigations through the channels designated by the DIGAI, in accordance with OIG Directive IG-904D, *Coordination of Investigative Matters*.

a. Referrals. DDs and ADs are authorized and encouraged to consult with and discuss referrals with the Office of Investigations Regional Assistant Special Agent-in-Charge and Special Agent-in-Charge. Formal referrals to the Office of Investigations will be made as necessary based on the circumstances, and such referrals shall be documented with the salient points of the allegation and include any supporting documentation. When a referral is made at the local (or higher) level, a memorandum entitled "Confirmation of Referral" shall be prepared and sent by DDs or ADs to the appropriate AIG and the DIGAI, documenting the referral. This memorandum, not to exceed one page, should describe (1) how the referral came about (the source of the information); (2) the characteristics that led the auditor to pursue the potential illegal act; (3) the regulation or other criteria believed to be violated; and, (4) the name and telephone number of the auditor most familiar with the referral. The memorandum should also request that notification be made to the OA contact if an investigation is opened.

b. Continuation of Audit. The DIGAI and/or appropriate AIG, in consultation with the AIGI, shall decide whether continuation of the audit will interfere with or compromise an investigation. Audit work shall not be delayed or discontinued without the appropriate AIG's and/or DIGAI's explicit approval.

c. Release of Information. All OA personnel are cautioned that, if they do become aware of a pending or on-going investigation, they are not to reveal the

## CHAPTER 4 -- GENERAL FIELD WORK POLICIES

existence of the investigation, discuss it with anyone other than OIG personnel who need to be aware of it, or to otherwise release information about the investigation without the prior consent of the DIGAI.

d. Audit Documentation. Auditors should cooperate fully with OIG investigators. This includes allowing OIG investigators to examine audit documentation.

e. Coordination. Additional requirements for coordinating with the Office of Investigations and, within OAI, the Office of Inspections, are found in Chapters 5 and 10.

3. Adjusting Scope of Audit Steps. If information of possible abuse or illegal acts comes to an audit team's attention, the team is responsible for considering the potential impact of these acts on audit results. If audit results could be significantly affected, the audit team may need to extend the audit steps and procedures, as necessary, to determine whether the acts occurred, and if so, to determine the extent to which audit results were affected. However, major adjustments in scope may not be necessary if the audit team has properly planned the audit and included steps to evaluate compliance with laws and regulations and to detect and report adjudicated fraud, noncompliance, or abuse significant in the context of the audit objective. For financial statement audits, auditors must do sufficient testing to ensure that possible fraud or illegal acts do not have a material effect, either directly or indirectly, on the financial statements. For all audits, the extent of additional testing requires judgment and experience in order to perform sufficient steps to detect major noncompliance without spending an unreasonable amount of resources. Although auditors need to exercise due professional care and caution in pursuing indications of fraud or illegal acts so as not to interfere with potential future investigations or legal proceedings, the belief that auditors can easily jeopardize a legal case by aggressively pursuing indications of fraud or illegal acts lacks foundation. More frequently, auditors do not go far enough with their testing. Early coordination with the Office of Investigations is a key to assuring a careful and successful examination of potentially illegal acts. (See Chapter 5 for additional planning guidance.)

4. Reporting Fraud or Illegal Acts. When fraud or illegal acts, or their potential, are identified, auditors should follow OAI report guidance for handling these issues in the audit report. In accordance with GAGAS, reporting on fraud or illegal acts is limited to occurrences significant within the context of the audit objective and what has been adjudicated. However, instances of adjudicated fraud that are not significant within the context of the audit objective, but warrant the attention of those charged with governance, can be, based on professional judgment, communicated separately in writing.

## **AUDITOR-IN-CHARGE ROLES AND RESPONSIBILITIES**

The AIC is responsible for directing specific audits. The AIC must be able to direct each audit through its various phases, from survey to reporting, in an expeditious and professional manner and ensure that established policies, procedures, and professional audit standards are effectively applied. Normally, the AIC will be assigned to an audit for its full duration, regardless of other staffing adjustments that may be made; and in this role, the AIC is expected to become the single, most knowledgeable individual on the audit. The AIC's responsibilities include:

### **A. WORKING RELATIONSHIPS**

The AIC will take the lead on an assignment by keeping management informed, coordinating audit activities, and maintaining effective working relationships.

1. **Keep Management Informed.** The AIC will keep supervisors and other OIG management informed of potentially significant events, trouble areas, high visibility issues, access to records problems, potential legal proceedings or illegal acts, and inquiries by the media, GAO, members of Congress, etc.
2. **Personnel and Administration.** The AIC will follow established OIG procedures for personnel administration and discipline, employment policies, time and attendance, leave administration, and travel.
3. **Audit Coordination.** As necessary, the AIC will coordinate the audit efforts internally within the OIG and externally with Department contractor internal auditors and with other audit organizations such as GAO, DCAA, other OIGs, and state or local auditors.
4. **Keep Staff Informed.** In addition to providing information "up-the-chain," the AIC must also work to ensure effective communication with assigned staff.

### **B. SUPERVISION**

The AIC will supervise audit activities to ensure performance in accordance with GAGAS and OA policies and procedures. Specifically, the AIC will (1) ensure that staff are assigned tasks commensurate with abilities and are used in a productive manner; (2) work with staff to identify specific needs and to develop needed skills and abilities; (3) provide the first level of review for work performed by assigned staff, to include reviewing all evidence supporting findings and recommendations; (4) provide "on-the-job training" (OJT) to trainees, prepare OJT accomplishment records, and assist in evaluating trainee performance; and, (5) conduct and document bi-weekly reviews of evidence and documentation prepared by staff.

### **C. PLANNING**

The AIC is responsible for the planning of an audit, which includes establishing how the audit objective can be met while making optimum use of limited audit resources. Plans for an audit will be reflected in the audit programs for survey and verification work that comply with audit standards and policies and are consistent with the approved audit objective.

1. **Audit Objective.** The AIC will address the audit objective, scope, and methodology in the audit program and ensure that the scope of work and methodology, such as audit techniques to be used, are consistent with the audit objective.

2. Laws and Regulations. Consistent with the audit objective, the AIC will design audit steps to assess compliance with relevant laws and regulations and to provide reasonable assurance, where risk has been identified, of detecting significant actual or potential fraud, abuse or other illegal acts.

3. Internal Controls Testing. The AIC is required to design audit steps to document their understanding of the internal control structure and assess whether internal controls significant to the audit objective have been properly designed and implemented.

4. Transaction Testing. The AIC will normally design transaction tests to evaluate internal controls, determine compliance with laws and regulations, reach conclusions on the audit objective, and determine the significance or extent of potential findings. In planning audit steps at the Department's M&O contractors, the AIC should consider the testing done by other auditors, especially that conducted by contractor internal auditors.

5. Testing for Data Reliability. The AIC will (1) determine the level of review and testing needed to ensure the reliability of computer-processed data that is significant to the audit objective and (2) coordinate these plans with their TL and the Technology Audit Group, if needed.

6. Audit Follow-up. The AIC is required to identify prior and concurrent reviews or audits that cover the same or related subject matter as their current assigned audit and to follow-up on the status of the findings and recommendations.

7. GPRA Modernization Act of 2010. The AIC is required to design audit steps in all performance audits to evaluate how the Department is implementing the GPRA Modernization Act for the area(s) being reviewed and include the results in the audit report.

8. Fraud Risk. The AIC is required, at the beginning of audit or survey field work, to conduct and document a meeting with assigned audit staff to assess fraud risk, including what controls should be in place to prevent or detect fraud risk and how the auditee could be defrauded. If factors or risks are identified that indicate fraud has or is likely to occur that is significant in the context of the audit objective, AIC should ensure that procedures are designed to provide reasonable assurance of detecting such fraud.

#### **D. INITIATING AN AUDIT**

The AIC will ensure that audits are properly authorized and that the auditee is kept informed of audit objectives and scope of planned work. The AIC should ensure that the audit objective and audit/survey program has been approved in TeamMate by the TL and AD before the audit work begins.

1. Letter of Notification. The AIC will prepare Letters of Notification that appropriately state the purpose of the audit and scope of planned work.

2. Entrance Conference. The AIC will attend the entrance conference for their assigned audit and record the results of the meeting.

3. "Kick-Off" Meetings. The AIC will arrange for "kick-off" meetings at subordinate levels of an audited entity before initiating audit work.

**E. SURVEY WORK**

Within the survey framework, the AIC is responsible for gathering data, identifying potential findings, and determining the nature and scope of audit work that would be needed to verify the findings. At the end of the survey, usually 75-90 days from the entrance conference, the audit team will have a Go or No-Go meeting with their AD. If the meeting results in a No-Go decision, the team will either prepare a Letter Report or a Termination Letter. The AIC will document the No-Go decision with a memo to the file that is signed off by the AD stating the rationale for the decision and include this memo in the workpapers. If the meeting results in a Go decision, the staff will prepare an End-of-Survey (EOS) document that is an outline of the proposed report. The EOS document will be forwarded to Headquarters for review and comment. After addressing all comments, the EOS document will be sent to the DD and the AIG for concurrent review. An example of a Go decision EOS document can be found at Exhibit E of this chapter. In some cases, the EOS document will recommend that the audit objective be modified. See section F.1., below, concerning a revised audit objective.

**F. CONDUCTING VERIFICATION WORK**

The AIC will ensure that essential information to accomplish the audit objective is gathered, analyzed, interpreted and documented during verification work. The AIC will translate planned audit steps into tasks or work segments that can be assigned to and carried out by individual staff members. The AIC takes the initiative to assess the efficiency and effectiveness of audit steps and make or recommend adjustments whenever audit steps are not providing supportable conclusions on the audit objective or are inefficient.

1. Revised Audit Objective and Audit Program. The AIC is responsible for ensuring that any revisions to the audit objective are approved and reflected in the verification audit program and that any redirection of the audit is communicated to the auditee. Any significant change to the audit objective must be approved by the responsible AIG. Additionally, any significant changes in the audit program must be approved by the TL and AD before the verification work begins.

2. Audit Evidence/Techniques. The AIC will ensure that appropriate techniques are used in gathering, documenting, analyzing and summarizing audit evidence that is sufficient and appropriate for the audit objective.

a. Data from Computer-Based Systems. The AIC will ensure that a reliability assessment is made when computer-processed data or information is (1) significant to the audit objective or, (2) to be used in a report or in support of a finding.

b. Data Gathering and Sampling Techniques. The AIC will follow appropriate Department approval procedures (which incorporate OMB guidance) when using questionnaires and structured interview forms. AICs will also use appropriate sampling techniques and ensure that any conclusions made are valid, with particular attention paid to the (1) basis for sample selection; (2) size of audit universe; (3) attributes of the sample, such as error rates, sample interval, and confidence levels; (4) results of the sample; and, (5) basis for projecting sample results.

c. Illegal Acts. The AIC is responsible for documenting any indication of potential criminal violations and other types of illegal conduct. See Chapter 4, item D, for more details on responsibilities concerning detecting and reporting fraud, abuse and illegal acts.

d. Internal Controls. The AIC is required to document in the workpapers their understanding of the internal control structure and their assessment of whether internal controls significant to the audit objective have been properly designed and implemented.

3. Audit Documentation. The AIC will ensure that audit documentation is prepared and maintained in TeamMate in accordance with the latest TeamMate EWP Protocol, GAGAS, and OA policies and procedures. See Chapter 6 for details on audit documentation. The AIC will ensure that audit documentation is properly safeguarded and any classified information obtained is handled, controlled, stored and mailed in accordance with Department requirements.

### **G. REPORTING AUDIT RESULTS**

The AIC will ensure that all audit results for their assignments are reported in accordance with GAGAS and OA reporting policies and procedures.

1. Draft Report. The AIC will prepare a draft report in accordance with prescribed reporting policies and formats. The AIC will ensure that findings are fully developed and claimed savings are carefully documented in the TeamMate EWP "Issues" feature and verified for factual accuracy by the auditee. All performance audit reports must, at a minimum, refer to the GPRA Modernization Act, address the performance standards evaluated, and discuss the results of our review. When the GPRA Modernization Act requirements have not been implemented, the report should include appropriate audit recommendations.

2. Referencing. The AIC will ensure that a report is properly cross-indexed and prepared for referencing. The OAI TeamMate EWP Protocol discusses the procedures for cross-indexing and referencing.

3. Exit Conference. The AIC will attend the exit conference for their assigned audit and record the results of the meeting.

4. Final Report. The AIC will prepare final reports that reflect management comments and are written in accordance with GAGAS and OA reporting policies and procedures. Using the TeamMate EWP "Issues" feature, a matrix showing how management comments were addressed should be prepared and included in the audit file.

### **H. ADMINISTRATIVE/OTHER DUTIES**

The AIC is responsible for ensuring compliance with various administrative and personnel requirements and to perform other duties, as assigned.

1. Action Items. Consistent with their assigned audits, the AIC may be asked to help process action items, such as short suspense requirements, on behalf of the AIG or OA Headquarters.

2. Audit Tracking Input. The AIC should enter all actual milestone dates in the TeamMate audit file when reached and ensure that all revised milestone dates are reasonable and current. On at least a bi-weekly basis, the AIC should ensure that audit tracking information in the TeamMate audit file on job status, time charges, comments, and other information are current and accurate. The AD and DD should also periodically verify the accuracy of estimated, revised and actual milestone information. The OAI TeamMate EWP Protocol discusses procedures for maintaining audit tracking information.

3. Identifying Audit Ideas. The AIC will be alert to identifying audit ideas for subsequent audits, and will submit audit lead sheets or audit profiles whenever potential audit issues are identified. AIC will also encourage assigned audit staff to identify ideas and submit audit lead sheets or profiles.



**TEAM LEADER ROLES AND RESPONSIBILITIES**

The TL manages and directs audit operations at various field sites under the DIGAI, AIGs, and the DDs. The TL provides supervision and professional leadership to staff auditors conducting financial, performance and other audits of Department activities, programs, and organizations. TLs are responsible for (1) general management activities; (2) directing specific assignments; (3) developing functional or technical expertise consistent with assigned audit areas; and (4) handling various administrative duties on behalf of the OIG:

**A. GENERAL MANAGEMENT ACTIVITIES**

The TL is responsible for the overall management of activities for their audit group. Specific requirements include:

1. Keeping Management Informed. The TL should keep OIG management informed of potentially significant events, problem areas, high visibility issues, access to records denials, potential legal proceedings or illegal acts, and inquiries by the media, GAO, members of the Congress, etc. Specific requirements include:

- Preparing weekly activity reports.
- Referring media inquiries to Headquarters.
- Arranging for and participating in TL meetings and visits by OIG management.
- Briefing OIG management on issues as requested.
- Informing OA management if indications of fraud or other illegal acts are disclosed during an audit.

2. Staff Supervision. As the senior supervisor at a site, The TL will ensure that audit and administrative staff perform assigned duties in accordance with OA standards and procedures. Specifically, they will:

- Ensure that audit and administrative staff are assigned tasks commensurate with their abilities, are productively utilized, and perform their assigned tasks in an appropriate and professional manner.
- Provide the first level of review of audit programs, work performed, audit evidence and documentation, and potential findings.
- Review each audit's TeamMate file and all audit documentation prepared by the AIC at least monthly.
- Document reviews and the resolution of review comments and points raised.
- Be alert to personal impairments of their staff.

3. Coordination/Liaison. The TL will maintain liaison with various organizations for work involving their assigned audit area. This includes:

- Periodically meeting with Department and contractor officials to discuss OIG audits and other issues.

- Establishing a direct relationship with internal auditors at the Department's major contractors (e.g., M&O). However, any instructions to the internal auditors will be issued through the appropriate Department contracting officers.
  - Coordinating audit coverage in their audit area with external audit groups such as GAO, DCAA, other OIGs, and state or local auditors.
  - Coordinating audit work required at other locations with the affected offices and keeping the AIGs apprised of all interdivision audit activity.
  - Ensuring that audit work under their control is coordinated with the Office of Investigations and Office of Inspections, through the DPAQA, to (1) determine whether investigative and inspection information would help in developing audit findings and (2) ensure that audit work or release of findings will not interfere with an ongoing investigation or inspection.
4. Security. The TL has overall responsibility for security at their audit group's site, which includes ensuring that:
- All local security requirements are followed.
  - Classified information is handled, controlled, stored, and mailed in accordance with Department requirements.
  - Audit documentation, equipment, and facilities are adequately secured and safeguarded.
  - Requests for security clearances are submitted in a timely manner.
5. Training and Development. The TL will take a proactive role in the training and development of their staff. The TL will:
- Work with staff, particularly AICs, to identify specific needs and to develop needed skills and abilities.
  - Ensure adequate oversight and training for trainees, to include reviewing OJT accomplishment records, and providing input to their performance and conducting discussions about their career progress.
6. Keep Staff Informed. In addition to providing information to management, the TL must also work to ensure effective communication with their staff.

**B. DIRECT SPECIFIC ASSIGNMENTS**

The TL will supervise, direct, or otherwise monitor all audits within their assigned audit area. In carrying out this function, the TL will control and schedule all jobs under their supervision. They will either perform the required tasks or assign duties to the AIC and other staff with due regards for job requirements and staff capabilities. Where the AIC is assigned responsibility for an audit, the TL will ensure that the AIC (1) is informed of their expected duties as discussed in Exhibit A; (2) perform such duties in an appropriate manner; and, (3) are not assigned other duties that would conflict with successful completion of the audit.

1. Audit Profiles. The TL will prepare or review planned audit profiles to ensure that profiles are tied directly to the annual programmatic risk assessments.
2. Letter of Notification. The TL will ensure that letters of notification appropriately state the purpose of the audit and scope of planned work.
3. Assign Staff. As delegated by OAI management, the TL will ensure that an adequate number of staff with appropriate experience, skills, and knowledge is assigned to each audit.
4. Survey Program. The TL will review and approve survey programs prior to starting the audit to ensure that the nature and scope of work planned is consistent with the audit objective and steps cover all mandatory areas, such as the GPRA Modernization Act, internal controls, compliance with laws and regulations, and reliance on computer-processed data, are included. In addition, the TL will approve any changes made to the survey program.
5. Audit Tracking Input. The TL will periodically review information in the TeamMate audit file to ensure that audit tracking information on job status, milestones and comments are accurate and that all required data fields are completed.
6. Entrance Conference. The TL will attend entrance conferences that affect their assigned audit area.
7. Site Visits. If audits involve work at other sites, the TL will periodically conduct site visits in order to discuss audit progress and, as appropriate, to offer direction.
8. End of Survey. The TL will review the EOS document for a "Go" decision and submit it to higher levels of OAI management for further review. If the audit objective is revised, it should be documented in the TeamMate audit file that the objective was revised at the EOS.
9. Audit Program. The TL will review and approve audit programs for verification work to ensure that the planned scope of work, and audit steps are consistent with the approved audit objective and the EOS document. The TL will approve the audit program before the work begins. In addition, the TL will approve any changes to the audit program.
10. Findings and Recommendations. The TL will review the findings and recommendations and the Monetary Impact Statement to ensure that findings are fully developed and that claimed savings are carefully documented using the TeamMate EWP "Issues" feature.
11. Referencing. The TL will ensure that draft and final audit reports are referenced prior to issuance.
12. Draft Report. The TL will ensure that the draft report is written in accordance with OAI reporting policies.
13. Exit Conference. The TL will attend exit conferences that affect their assigned audit area.
14. Final Report. The TL will review reports prior to issuance for quality, consistency and compliance with OIG reporting policies, and ensure that the report

reflects the management comments of the auditee. The TL should also ensure that the TeamMate audit file is updated to include data on the final report, findings and savings as required by the OAI TeamMate EWP Protocol.

15. Final Report Information. At the time of final report processing for issuance, the TL will ensure that an auditee point of contract listing is completed and forwarded to OAI Headquarters, and the final Monetary Impact Statement, 10 Key words, and listing of staff that worked on an audit is completed and forwarded to the OPAQA.

16. Management Decisions. The TL will review Management Decisions to ensure consistency with audit findings and recommendations. Chapter 9 discusses audit follow-up and resolution policies.

### **C. DEVELOP FUNCTIONAL/TECHNICAL EXPERTISE**

The TL should develop an audit team that has sufficient functional or technical expertise to effectively audit all entities or activities within their assigned areas. The TL will "coach" or otherwise provide guidance, technical direction, and leadership for their staff. Specific requirements include:

1. Current Files. The TL will ensure that TeamMate files for each audit are prepared in accordance with the TeamMate EWP Protocol.
2. Permanent Files. The TL will develop, maintain and periodically update permanent files on organizations or activities in their assigned areas to include information on legislation, budgets, organizational descriptions, prior audit reports, Department directives, and such other information as will assist them in reviewing assigned audits and future workload planning.
3. General Planning/Audit Guidance. The TL will help evaluate audit ideas and develop audit goals, plans and guidance for their assigned audit areas.
  - a. Audit Profiles. The TL will submit audit profiles whenever they identify potential audit issues.
  - b. Annual Risk Assessments. Risk assessments are an important planning tool. The TL is responsible for annually providing input, about the Department sites for which they are responsible, to the programmatic-based risk assessments. These risk assessments will be used to prepare the OAI annual work plan and should be completed by mid-April of each year.
4. Internal Control Assessments. The TL plays a central role in helping the OIG meet its responsibilities for annual assessments of the internal controls maintained by the Department and its contractors.
  - a. Department's Major Contractor Audits. The TL will track the status of audits performed of the Department's major contractors by the internal auditors.
  - b. Federal Managers' Financial Integrity Act. The TL will assist in the required annual reviews.

- c. Responsibility for the Cost Statement. The TL will sign, if appropriate, the cost statement (e.g., SCIC) for the Department's major contractors. See Chapter 15 for further discussion of the cost statement.
5. Action Items. Consistent with their assigned audit areas, the TL may be asked to help process action items, such as short suspense requirements, on behalf of their AIG or OAI Headquarters.
6. Use of Experts and Consultants. If the audit staff does not have needed specialized training or skills, the TL is responsible for requesting the use of appropriate experts and consultants through the appropriate AD or DD.

**D. ADMINISTRATIVE**

The TL should ensure compliance with various administrative and personnel requirements.

1. Personnel. The TL is to follow established OIG procedures for personnel administration, work force discipline, and employment policies.
  - a. Recruitment/Promotions. The TL will participate in hiring employees with due regard for OIG policies on affirmative action. Their duties include communicating on openings and interviewing candidates for positions.
  - b. Discipline/Compliance with Rules. The TL will follow prescribed procedures for maintaining work force discipline and compliance with other requirements. Specifically, they will:
    - Keep employees informed of rules, regulations, and standards of conduct, and maintain order and discipline within the framework of established procedures.
    - Ensure employee compliance with local policies, such as parking, smoking, appropriate dress, and reporting for work during hazardous weather.
    - Ensure that assigned staff complies with requirements for seeking advance approval for outside employment, and submitting financial disclosure statements.
    - Gather, analyze and consider carefully all facts and circumstances before recommending corrective action.
2. Payroll/Time and Attendance. The TL will follow established OIG procedures for recording time and attendance. The TL will ensure that time is entered into TeamMate in a timely manner. The OAI TeamMate Time and Expense Capture Guide provides procedures for maintaining direct audit project-related payroll/time and attendance information.
3. Leave Administration. The TL will follow established OIG procedures for leave administration; including scheduling annual leave with due regard for workload demand and employee needs. Specifically, they will approve annual and sick leave.

4. Travel. The TL will ensure that they and their assigned staff follow established OIG travel procedures. Specifically, they will keep their supervisors and AIG informed of inter-organizational travel.

5. Facility/Office Management. The TL will serve as the local OIG representative in establishing reasonable working conditions and local office policies. Specifically, they should:

- Ensure adequate space, facilities, equipment and supplies for the OIG staff.
- Ensure accuracy of information technology equipment inventory.
- Oversee office management, such as mail and telephone.
- Arrange for employee participation in programs such as health screening, security, and environmental briefings.
- Ensure that an office filing system is established.

**TECHNICAL MONITOR ROLES AND RESPONSIBILITIES**

A Headquarters TM is responsible for assisting ADs, TLs and AICs throughout the audit or review process, from developing the approach to ensuring a quality report. They serve as the representative between the field and Headquarters and are responsible for keeping Headquarters personnel informed about where an audit or review is going and how the auditors plan to get there. TMs should be involved in all the various phases of the process – audit profile, survey, verification and reporting – to facilitate the successful completion of an audit or review. TMs need to be involved early on and should communicate with the AICs, TLs and Division management, as needed. TMs are available to assist the audit teams in gathering necessary information relevant to the audit or review and scheduling and/or attending meetings with Headquarters program officials.

- A. Audit Objective – TMs should have input into the audit profiles before finalization. Where necessary, they will attend the TL meetings when the Divisions discuss profiles to be included in the annual work plan. The TM is responsible for reviewing the audit objective and approach to ensure that the proposed audit does not duplicate or conflict with work in other divisions, GAO, etc. Profiles not included in the annual work plan must be submitted through the TM to the cognizant AIG for approval. A key factor in obtaining approval will be whether the proposed profile is the best use of audit resources at any given time.
- B. Survey Program – TLs are responsible for providing TMs with the survey program for review. This review, cursory in nature, is to look for any gaps in the survey program and offer suggestions on areas that should be added in order to answer the audit objective and/or conform to accepted auditing standards. A comprehensive survey program will help everyone stay focused on answering the audit objective and prevent unnecessary work not related to the objective. It is mandatory that an audit step be designed to evaluate how the Department of Energy is implementing the GPRA Modernization Act of 2010.
- C. End of Survey – The audit team will prepare an End of Survey (EOS) document and forward it to the AD for review. When the AD approves the EOS document, it will be forwarded to the TM for review and comment. Comments by the TM will be addressed by the audit team and the EOS document will then be forwarded to the DD and cognizant AIG for concurrent review.
- D. Audit Program – TLs are responsible for providing TMs with the audit program for review. Again cursory in nature, this review is to verify that the additional audit steps will cover any work needed to support and/or validate the proposed finding(s) as agreed to in the EOS document and prevent unnecessary audit work.
- E. Draft Report – The draft report will be sent to the responsible TM for review. The main purpose of this review is to ensure that the audit objective has been answered and to suggest changes related to substantive issues rather than grammar or writing style. It is the responsibility of TMs to assist in assuring the report delivers a message that is clear, concise, and convincing. It is mandatory to address the GPRA Modernization Act of 2010, for both positive and negative results, in all performance audit reports and to include appropriate recommendations if needed.

- F. Final Report – The final report will be sent to the responsible TM for review. The main purpose of this review is to see how management comments were incorporated into the report and that the report delivers the message intended. Also, TMs are responsible for coordinating the final IG memo with the field prior to signature by the IG to ensure consistency between the memo and the report.

Throughout the audit process, the TMs will review audit tracking information from TeamMate on job status and milestones to ensure that it is current. This aforementioned task is important because it provides an additional level of assurance that the information input by TLs and audit staff, and contained in the weekly report on open performance audits, that is forwarded to the AIGs and DIGAI for review, is current and timely.

Each week, the TMs will keep the field informed on the status of all EOS documents, draft, and final reports in Headquarters for review by issuing a weekly status report from Headquarters. In addition, the TMs will let the field know the planned action expected on the written products for the following week.



## **CHAPTER 5**

### **AUDIT PLANNING**

#### **A. SCOPE OF CHAPTER**

This chapter describes policies and procedures for developing the OA audit plans to assure adequate audit coverage within the Department and efficient use of audit resources.

#### **B. AUDIT PLANNING CYCLE**

The primary vehicle for OA audit planning is the annual planning cycle. For each fiscal year, the cycle begins the previous February and culminates before the start of the fiscal year with the publication of the Annual Performance Plan. During the fiscal year, the OA makes adjustments to its planned audits in response to unanticipated issues and requests that require timely, and sometimes immediate, attention.

1. **Planning Responsibilities.** The DPAQA is responsible for overseeing the planning and budgeting process for audit resources and associated staff services. The AIGs and DDs are responsible for providing planning information for their respective offices and areas of responsibility to help develop audit plans and budgets. Department Order 224.2A, *Auditing of Programs and Operations*, requires the publication of an integrated audit plan. This plan is the OIG Annual Performance Plan, published at the beginning of each fiscal year. As an integral part of the Department, the OIG must also prepare and submit an annual budget. The following are the essential responsibilities for planning what audits will be conducted by the OA.

a. **Annual Program Guidance.** The DPAQA is responsible for providing planning guidance to the field as a basis for identifying the audits that will be included in the Annual Performance Plan. Each February, the DPAQA will issue planning guidance for conducting risk assessments, identifying audits, and developing audit plans for the next fiscal year. The guidance sets priorities for OA audit coverage of Departmental issues and operations and provides submission dates and formats for risk assessments, audit plans, and planned audit profiles. To maximize audit coverage within the Department and avoid duplicative audit work, the DPAQA also provides planning guidance to the Department's field and site offices for use by their management evaluation staffs and to the internal audit organizations of the Department's M&O contractors.

b. **Risk Assessments.** Because of resource limitations, the OA recognizes that not all programs, functions or activities in the Department can be audited every year or all aspects covered in each audit. Through its risk assessment process, OA attempts to ensure that its audits cover major risk areas within the Department. AIGs and DDs have overall responsibility for risk assessment preparation for Department programs over which they are responsible. As part of the process, TLs each year are responsible for providing input to the programmatic-based risk assessments about the Department sites for which they are responsible. ADs are responsible for ensuring that TL input provides

comprehensive coverage of their assigned program areas. All risk assessments are to be completed or entered into TeamRisk of the TeamMate application by mid-April of each year. For direction on risk assessment entry in the TeamMate environment, see the OAI TeamRisk Guide.

c. Audit Profiles and Leads. An audit profile is the document used in OA to recommend and approve proposed audit work. An audit lead sheet can be used in OA to recommend proposed audit work. It serves as an initial tool in the planning process for developing an audit profile. See Exhibit A and B for the planned audit profile formats, Exhibit C for the audit lead sheet format, and Exhibit D for instructions on preparing the profile and lead. OA auditors are encouraged to proactively develop audit leads and profiles throughout the year. Auditors will submit audit profiles and leads to their respective TL. Annually, the AIGs and DDs will establish a due date for their TLs to submit audit profiles for consideration for the audit plan. The AIGs and DDs are responsible for finalization of audit profiles by the end of July each year. All profiles to be considered at the Executive Planning Meeting should be included in TeamRisk. For direction on audit profile entry in the TeamMate environment, see the OAI TeamRisk Guide.

d. Annual Performance Plan. The annual audit planning cycle culminates with the publication of the Annual Performance Plan. The DIGAI, DPAQA, AIGs, and DDs will prioritize proposed audits based on risk assessments and other planning factors. Audit profiles will be approved and included in the Plan based on priority ranking and the availability of audit staff days. The DPAQA is responsible for publishing the Plan. The Plan will be finalized by September 30, published, and made available to OMB, GAO, and other interested parties.

e. Changes to Published Annual Performance Plan. Additions to the published Annual Performance Plan are accomplished by submitting new audit profiles to the DPAQA for approval through the AIGs and DDs. A new audit profile must be accompanied by written justification that ties the proposed audit to the applicable programmatic risk assessment and identifies any audit(s) in the Annual Performance Plan that may be cancelled in order to provide resources for the new audit. Audits in the Plan can be terminated or cancelled at the discretion of the AIGs; however, the AIGs should notify the DPAQA concerning such actions.

f. Planning Documentation. The DPAQA is responsible for ensuring the assignment of project numbers for planned audits. The DPAQA will retain copies of risk assessments and original signed profiles for all approved audits for the current fiscal year and the two preceding fiscal years. When warranted, the DPAQA is responsible for modifying the Annual Performance Plan and for notifying the National TeamMate Champions when audits should be added, terminated, or cancelled within the TeamMate application.

2. Planning Factors. Numerous factors contribute to audit planning for OA. Factors include Congressional and OMB requirements, the Department's budget, and program and policy issues. These factors are regularly addressed as part of the annual planning

cycle. In addition, planning is conducted within the context of long-term planning and considers the following factors:

- a. Presidential and Secretary of Energy Initiatives. OA planning will address key areas for which the President or the Secretary of Energy has established initiatives, goals, or strategic plans. For example, Presidential initiatives can challenge all Federal agencies to become more efficient, more effective, more results-oriented, and more accountable to the taxpayers and those who benefit from the programs and services the Government provides. Secretary of Energy initiatives can be roadmaps to address major issues facing the Department such as energy, environmental and nuclear security challenges.
- b. Management Challenges. The OIG annually identifies the most significant management challenge areas at the Department and plans audits to provide reasonably comprehensive audit coverage in these areas. In addition, the OIG annually develops a watch list that consists of management issues that do not meet the threshold of major management challenges, yet warrant continued attention by senior Department management. Watch list issues may include management challenges identified in previous years for which the Department has implemented corrective actions or has achieved positive outcomes. The watch list may also include emerging issues that require Department action.
- c. Goals and Objectives. The DPAQA is responsible for developing goals and objectives with input from all OA organizations. These goals and objectives identify a broad framework within which OA can (i) evaluate the economy, efficiency and effectiveness of Department programs and operations; (ii) emphasize work in the management challenge areas; (iii) detect and deter fraud and abuse by ensuring that proper internal controls are established and maintained; and (iv) identify, obtain and administer sufficient audit resources to carry out an efficient and effective OIG program of audits.
- d. Risk Assessment Results. Overall risk rating categories of low, medium or high are assigned to major auditable entities based on annually updated risk assessments. In assessing risk, consideration is given to such factors as (1) adequacy of internal controls; (2) major projects/new initiatives; (3) dollar value/materiality; (4) system changes; and (5) prior audit results.

**C. IDENTIFYING AUDIT IDEAS AND NEEDS**

The focus of the planning process is to maximize available audit resources in order to meet statutory requirements for audits and to provide coverage to high-risk areas. Planned audits in the Annual Performance Plan come from a variety of sources, all of which play an important role in determining which audits will be performed and the benefit to be achieved.

1. Recurring Audit Requirements. Certain audits are performed to meet statutory and regulatory requirements and OA commitments. These requirements may originate from such sources as Congress, OMB, GAO, or the terms of the Department's contracts. The AIGs and DDs are responsible for ensuring that these requirements have been identified and reflected in the Annual Performance Plan. Recurring audit requirements include:

- a. Annual Financial Statement Audit. GMRA and subsequent legislation require an audit of the Department's consolidated financial statements. The financial statement audit is to be conducted in accordance with GAGAS by the OIG or by an independent external auditor, as determined by the OIG. See Chapter 12 for details of the financial statement audit.
- b. Evaluation of Unclassified Cyber Security Program. The Federal Information Systems Management Act of 2002 requires an annual evaluation and report on the Department's unclassified cyber security program.
- c. Federal Managers' Financial Integrity Act. Under FMFIA, the OIG is required to review assurance letters prepared by all Department elements and express views as to the status of internal controls or material weaknesses within the Department. This review work can be performed as part of the annual financial statement audit work.
- d. Audits of the Department's Major Contractors. The OIG is the cognizant (responsible) audit agency for the majority of the Department's major contractors (e.g., M&O contractors). Generally, these cost-reimbursement contracts are pre-financed by the Department, and contractors are required to maintain a separate and distinct system of accounts, records, documents and other evidence showing and supporting all allowable costs incurred, revenues or other applicable credits. At the end of each fiscal year, these contractors submit to the Department a cost statement or SCIC that includes the contractor's certification that the costs claimed represent allowable contract costs. These contracts require that the contractor's internal audit function conduct annual audits of the allowability of the costs claimed. OA fulfills its cognizant audit responsibility by performing assessments or reviews to ensure that the allowable costs audits were performed by internal audit organizations and to ensure that questioned costs and identified control weaknesses have been adequately addressed and resolved. These assessments or reviews are conducted annually for the contractors with the highest risk based on the results of OA audit planning. See Chapter 15 for further discussion and OA policies and procedures related to audit coverage of costs statements or SCICs.
- e. Contract Audits. For the Department's non-major contracts (e.g., non-M&O contracts), DCAA is normally responsible for performing pre-award and cost incurred audits (contract audits). However, on occasions, the OIG may be called upon to provide contract audit assistance related to allowable costs or other contract cost issues, or to audit other recipients of Department funds such as grantees. See Chapter 13 for discussion of contract audits.
- f. Single Audit Act and Audits of States, Local Governments and Non-Profit Organizations. The Single Audit Act, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and its successor Title 2 in the Code of Federal Regulations (CFR), Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, requires certain entities receiving Federal funds, such as educational institutions, state and local governments, and nonprofit organizations, to have a single or

program-specific audit (single audit) conducted. Generally, for entities for which the Department provides the predominant amount of funds, the OIG can be assigned responsibility to be the cognizant agency for audit or the oversight agency for audit. For these entities, the OIG's responsibilities can include periodic reviews and reports on the adequacy of single audits. OMB's direction contains detailed requirements and guidance on single audits and the responsibilities of a cognizant agency for audit and an oversight agency for audit.

2. Self-Initiated Audits. Many audit proposals are developed by auditors in the field who have observed potential issues concerning programs, activities, or operations of the Department, its contractors, or other recipients of Government funds. Examples of issues include: weaknesses in internal controls; susceptibility to fraud, waste, or abuse; new procedures or changed conditions; and, inefficient or uneconomical operations. Other ideas result from more formalized planning surveys of high-risk areas, identified in the risk assessment process. In some cases, the DIGAI will designate general subject areas for extensive survey work. These surveys are used to obtain information about particular subject areas and to develop strategies for further audit work. Timeframes and reporting objectives for these planning surveys will be determined on a case-by-case basis. In addition, the AIGs or DDs can authorize up to two weeks of survey work to develop audit ideas without establishing a separate job code or reporting requirement. As described above, all self-initiated audits are to be documented and submitted as audit profiles.
3. Requests for Audit Services. From time to time, OA receives requests or suggestions from the Department to conduct audits of Department activities, contractors or other recipients of Department funds. The AIGs and DDs will acknowledge such requests and prioritize them in relation to all other planned audits to determine whether conducting the audit will be an effective and appropriate use of OA resources. As described above, DCAA is normally responsible for conducting contract audits for the Department's non-M&O contractors. The AIGs and DDs should advise requesters to send such contract audit requests directly to DCAA.
4. Cross-Servicing. To conserve staff resources, promote efficiency, and reduce the impact of audits on the operations of the Department and its contractors, the DIGAI may establish cross-servicing arrangements under which one Federal agency will perform or oversee audits for all agencies at a contractor. Such arrangements will be made when it is in the best interest of the Department and the Federal government.
5. Referrals or Requests for Assistance from Investigations and Inspections. Occasionally referrals or requests for audit assistance are received from the Office of Investigations or the AIG for Inspections. The OA AIGs or DDs may accept referrals or requests for audit assistance if workload priority allows and/or prior approval is granted by the DIGAI. Referrals and requests must be in writing with a copy sent to the DIGAI. Verbal referrals and requests will not be accepted. Once the DIGAI has approved the referral or request, the AIGs or DDs should respond to the Office of Investigations or the AIG for Inspections.
6. Contract Transition and Closeout. Whenever there is a change in the major contractor (e.g., M&O contractor) at a Department facility, the responsible audit group will need to consider in its planning whether to conduct a review of the adequacy of

## CHAPTER 5 – AUDIT PLANNING

contract transition activities. The audit group should perform a preliminary analysis to evaluate risk factors relevant to transition activities such as contract value, transition costs, special contract clauses, and the contract environment at the site. If the preliminary risk analysis shows that the Department has an overall low to medium risk associated with the contract changeover then the TL should prepare a memo to the file to document that an audit will not be performed. If there is a greater than acceptable risk (medium high to high) to the Department, the audit group should submit an audit profile for a performance audit covering contract transition. The objectives of the proposed transition audit would reflect the significant risks identified in the risk assessment, such as allowability of contract closeout and/or transition costs and adequacy of management of transition activities.

Project Number: \_\_\_\_\_  
Assigned Audit Group: \_\_\_\_\_

**PLANNED AUDIT PROFILE**

DATE: \_\_\_\_\_ PREPARER: \_\_\_\_\_

1. AUDIT TITLE: \_\_\_\_\_

2. BACKGROUND:

3. AUDIT OBJECTIVE: To determine whether

4. SCOPE AND METHODOLOGY:

5. POTENTIAL FINDING: (Asserted condition, cause, effect)

Condition:

Cause:

Effect:

6. PROGRAMMATIC RISK RANKING: HIGH \_\_\_ MEDIUM \_\_\_ LOW \_\_\_

7. JUSTIFICATION FOR AUDIT: (requires narrative explanation)

- 8. OBAMA-BIDEN NEW ENERGY FOR AMERICA PLAN AREA:
- 9. PRESIDENT’S MANAGEMENT AGENDA:
- 10 GAO HIGH-RISK AREA:
- 11 DOE MANAGEMENT CHALLENGE AREA:
- 12 ECONOMY & EFFICIENCY AND/OR MEASUREABLE MONETARY ACCOMPLISHMENTS:      YES \_\_\_      NO \_\_\_
- 13. CONTRACT AUDIT STRATEGY AREA:      YES \_\_\_      NO \_\_\_
- 14 DOE STRATEGIC GOAL AND RELATED TARGET AREA:
- 15 SECRETARY’S PRIORITY/INITIATIVE:
- 16. FOLLOW-UP AUDIT:      YES \_\_\_      NO \_\_\_  
(If yes, identify prior audit reports):
- 17. TECHNICAL ASSISTANCE REQUIRED:      YES \_\_\_\_\_ NO \_\_\_\_\_  
(Description of Required Assistance :)
- 18. CLASSIFICATION OF AUDIT:    Performance \_\_\_      Financial \_\_\_      Other \_\_\_
- 19 PROGRAM CODE:      \_\_\_\_\_
- 20 FUNCTIONAL AREA:      \_\_\_\_\_
- 21. LOCATION CODE(s):      \_\_\_\_\_
- 22. APPROVALS:  
  

AIG		Date	
Director, PAQA		Date	



**FY ##### TEAMRISK PROJECT PROFILE TEMPLATE  
FOR AUDITS AND INSPECTIONS**

**GENERAL TAB (in TeamRisk)**

1. PROJECT CODE<sup>i</sup>: OD##-GRP-##-Preparer
2. PROJECT TITLE: Profile Name
3. PRIMARY PROGRAM (Energy, Environmental Cleanup, Financial Assistance, Human Resources, Management & Administration, National Security & Safety, or Science & Innovations ): Program
4. SUBJECT ACTIVITY/PROJECT (SubEntity): SubEntity
5. PHYSICAL LOCATION/SITE(S): Site

**PROFILE BACKGROUND TAB (in TeamRisk)**

6. BACKGROUND:  
Background of subject profile, basis of issue/problem...

**PROFILE OBJECTIVE (in TeamRisk)**

7. PROFILE OBJECTIVE:  
[To determine...]

**PROFILE JUSTIFICATION, SCOPE/METHODOLOGY, AND POTENTIAL FINDING (in TeamRisk)**

8. JUSTIFICATION FOR PROJECT SELECTION:  
Provide rationale for high, medium, or low risk rating as well as any other information relevant to the justification for profile idea and/or selection.
9. SCOPE AND METHODOLOGY:  
**Scope:** Click here to enter text.  
**Methodology:** Click here to enter text.
10. POTENTIAL FINDING:  
**Condition:** Click here to enter text.  
**Cause:** Click here to enter text.  
**Effect /Impact:** Click here to enter text.

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<sup>1</sup>The 'OD' represents **O**ffice (**A** for Audits and **I** for Inspection) and **D**irector (**C** for Central Audits Division, **E** for Eastern Audit Division and Eastern Inspection Region, OR **W** for Western Audit Division and Western Inspection Region). The '##' represents the fiscal year in planning. The 'GRP' in the section represents one of the Audit or Inspection groups. The '##' in the third section represents a two-digit sequential number, such as number count by group, presentation order, priority, etc. The 'Preparer' in the fourth section is optional and represents the individual(s) that developed the profile.

**AUDIT LEAD SHEET**

Preparer: \_\_\_\_\_

1. ORIGINAL \_\_\_\_ REVISED \_\_\_\_ DATE \_\_\_\_\_
2. AUDIT TITLE: \_\_\_\_\_  
\_\_\_\_\_
3. SHORT TITLE: \_\_\_\_\_
4. RESPONSIBLE OFFICE & CODE: \_\_\_\_\_
5. BACKGROUND:
6. PROGRAMMATIC RISK RANKING: HIGH \_\_\_\_ MEDIUM \_\_\_\_ LOW \_\_\_\_
7. JUSTIFICATION FOR AUDIT:
8. OBAMA-BIDEN NEW ENERGY FOR AMERICA PLAN AREA:
9. PRESIDENT'S MANAGEMENT AGENDA:
10. GAO HIGH RISK AREA:
11. DOE MANAGEMENT CHALLENGE AREA:
12. ECONOMY & EFFICIENCY AND/OR MEASUREABLE MONETARY ACCOMPLISHMENTS:
13. CONTRACT AUDIT STRATEGY AREA:
14. DOE STRATEGIC GOAL AND RELATED TARGET AREA:
15. SECRETARY'S PRIORITY/INITIATIVE:
16. AUDIT OBJECTIVE:
17. AUDIT APPROACH: (Scope and Methodology)
18. POTENTIAL FINDING(S): (Asserted condition, criteria, cause, and effect.)

**INSTRUCTIONS FOR PLANNED AUDIT  
PROFILE AND LEAD SHEET**

**PLANNED AUDIT PROFILE**

1. Project Number. The DPAQA will assign at job start the project number for profiles that have been approved for inclusion in the annual work plan or that have been approved by AIGs.
2. Assigned Audit Group. The audit group that will conduct the audit. At times, the group assigned to conduct the audit or review is different than the group that submitted the profile resulting from senior management meetings, staffing constraints, and other priorities.
3. Preparer. Include both the auditor name(s) and audit group(s).
4. Audit Title. Enter the audit title.
5. Background. Briefly describe the condition or situation that requires audit. This discussion may include reference to previous audit work in the same area, or any other applicable information that will enable OAI management to make a determination as to whether to include this proposed audit in the annual work plan.
6. Audit Objective. The audit objective should clearly articulate what the audit is to accomplish. The auditor should bear in mind that the objective will have a significant impact on the amount of testing for compliance with laws and regulations, and internal controls that is required.
7. Scope and Methodology. This section should discuss the scope of coverage and include a brief description of the methodology for answering the audit objective.
8. Potential Finding. The preparer should, at a minimum, concisely describe the asserted condition, cause, effect and applicable criteria in as much detail as possible.
9. Programmatic Risk Ranking. Each proposed audit will be assigned a risk ranking of “*High, Medium, or Low*” based on the Division's annual programmatic risk assessment prepared for the current work planning cycle. The overall programmatic risk assessment should be based on the individual site risk assessments prepared by various TLs at all major Department locations and activities that include examining such factors as site programs and major projects, new initiatives, sufficiency of recent audit coverage, and adequacy of internal controls. The results of these assessments should form the basis for all planned audits.
10. Justification for Audit. Briefly explain why this audit is being proposed. It should refer to the risk assessment ranking and identify the number and description of pertinent risk factors (e.g., potential audit is relevant to four criteria in the FY 20XX (Program) Risk Assessment. Specifically, this audit area contains material funding, has a potential adverse consequence to the Department, directly supports a Secretarial initiative, and has been designated as a management challenge).
11. Obama Administration Plan for Energy Area. Identify objective from the Obama-Biden New Energy for America Plan to which the audit relates.

12. President's Management Agenda. Identify President's Management Initiative to which the audit relates.
13. GAO High-Risk Area. Identify objective from the GAO High-Risk areas to which the audit relates.
14. DOE Management Challenge Area. Identify management challenge area identified in the current year's Management Challenges Report to which the audit relates.
15. Economy & Efficiency and/or Measureable Monetary Accomplishments. Indicate whether economy & efficiency and/or measurable monetary accomplishments would be identified.
16. Contract Audit Strategy Area. Indicate whether the audit falls into a contract audit strategy area (i.e., functional costs incurred by M&O contractor; cost estimating and costs incurred under Federal Acquisition Regulation based contracts; financial assistance programs; program effectiveness; M&O contractor internal audits of incurred costs, Cost Accounting Standards Disclosure Statements, and subcontract under the Cooperative Audit Strategy; and/or contractor assurance systems).
17. DOE Strategic Goal and Related Target Area. Identify the Strategic Goal and Related Target to which the audit relates.
18. Secretary's Priority/Initiative. Identify the Secretarial Priority and/or Initiative to which the audit relates.
19. Follow-Up Audit. Indicate whether this is a follow-up audit. If so, identify the prior audit by report number, title, and date issued.
20. Technical Assistance Required. Indicate whether the audit may require the use of advanced audit techniques. If so, briefly describe the techniques to be employed and needed assistance (if any). Should assistance be required, provide an estimate, if possible, of duration in staff days.
21. Classification of Audit/Review. Place an "X" after either performance, financial or other.
22. Program Code: Enter the appropriate program code from the following list.

<i>PROGRAM</i>	<i>CODE</i>	<i>PROGRAM</i>	<i>CODE</i>
OFFICE OF THE SECRETARY OF ENERGY ADVISORY BOARD	AB	LEGACY MANAGEMENT	LM
BONNEVILLE POWER ADMINISTRATION	BP	OFFICE OF MANAGEMENT	MA
CHIEF FINANCIAL OFFICER	CF	NATIONAL NUCLEAR SECURITY ADMINISTRATION	NA
CONGRESSIONAL & INTERGOVERNMENTAL AFFAIRS	CI	NUCLEAR ENERGY	NE
OFFICE OF THE DEPUTY SECRETARY	DS	OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY	OE

<i>PROGRAM</i>	<i>CODE</i>	<i>PROGRAM</i>	<i>CODE</i>
ECONOMIC IMPACT & DIVERSITY	ED	PUBLIC AFFAIRS	PA
ENERGY EFFICIENCY & RENEWABLE ENERGY	EE	POLICY AND INTERNATIONAL AFFAIRS	PI
ENERGY INFORMATION ADMINISTRATION	EI	FEDERAL ENERGY REGULATORY COMMISSION	RC
ENVIRONMENTAL MANAGEMENT	EM	WESTERN AREA POWER ADMINISTRATION	RP
FOSSIL ENERGY	FE	CIVILIAN RADIOACTIVE WASTE MANAGEMENT	RW
OFFICE OF GENERAL COUNSEL	GC	OFFICE OF THE SECRETARY	S
HEARINGS AND APPEALS	HG	SCIENCE	SC
HUMAN CAPITAL MANAGEMENT	HR	SOUTHEASTERN POWER ADMINISTRATION	SE
HEALTH, SAFETY AND SECURITY	HS	SOUTHWESTERN POWER ADMINISTRATION	SW
INTELLIGENCE AND COUNTERINTELLIGENCE	IN	OFFICE OF THE UNDER SECRETARY	US
CHIEF INFORMATION OFFICER	IM		

23. Functional Area. Enter the applicable functional area from the following list.

<i>CODE</i>	<i>FUNCTIONAL AREA</i>	<i>CODE</i>	<i>FUNCTIONAL AREA</i>
001	Budget & Finance	011	Contract/Grant Administration
002	Procurement	012	Research & Development
003	ADP/Information Management	013	Project Management
004	Property/Inventory Management	014	Technology Transfer
005	Safeguards and Security	015	Facilities Management
006	Labor Relations/Human Capital	016	Intelligence/Counterintelligence
007	Quality Assurance	017	Economic Impact & Diversity
008	Waste Management	018	Weapons-Related
009	Environment, Safety & Health	019	Other
010	Administrative Services		

24. Location Code. Enter the location code to be audited from the following list. Enter all codes that are included in the scope of the audit.

<u>CODE</u>	<u>FACILITY</u>	<u>LOCATION</u>
AGO	ARGONNE SITE OFFICE	Chicago, IL
ALS	ADVANCED LIGHT SOURCE-APS at LAWRENCE BERKELEY (BES) ( <i>user facility</i> )	Berkeley, CA
ALO	NNSA SERVICE CENTER (Old Albuquerque Operations Office)	Albuquerque, NM
AMI	AMCHITKA ISLAND	Amchitka, AK
AML	AMES NATIONAL LABORATORY	Ames, IA
AMS	AMES SITE OFFICE	Argonne, IL
ANL	ARGONNE NATIONAL LABORATORY (EAST)	Argonne, IL
ANW	ARGONNE NATIONAL LABORATORY (WEST)	Idaho Falls, ID
APS	ADVANCED PHOTON SOURCE at ARGONNE (BES) <i>user facility</i>	Argonne, IL
ASH	ASHTABULA SITE	Ashtabula, OH

<u>CODE</u>	<u>FACILITY</u>	<u>LOCATION</u>
ASO	ATLANTA REGIONAL OFFICE	Atlanta, GA
ATN	ARGONNE TANDEM LINAC ACCELERATOR SYSTEMS-ATLAS (HENP) <i>user facility</i>	Argonne, IL
BAP	BETTIS ATOMIC POWER LABORATORY	West Mifflin, PA
BKS	BERKELEY SITE OFFICE	Berkeley, CA
BLA	BATES LINEAR ACCELERATOR LAB <i>user facility</i>	MA
BNL	BROOKHAVEN NATIONAL LABORATORY	Upton, NY
BNY	BROOKHAVEN SITE OFFICE	Upton, NY
BPA	BONNEVILLE POWER ADMINISTRATION	Portland, OR
BSM	BOSTON REGIONAL OFFICE (Old Boston Support Office)	Boston, MA
CAR	CARLSBAD FIELD OFFICE	Carlsbad, NM
CHO	INTEGRATED SERVICE CENTER (3/30/04) (OLD CHICAGO OPERATIONS OFFICE)	Argonne, IL
CNT	CENTRAL NEVADA TEST AREA	NV
COI	COLUMBUS AREA OFFICE	Columbus, OH
CRF	COMBUSTION RESEARCH FACILITY-CRF (BES) <i>user facility</i>	Sandia Labs, CA
CSO	MIDWEST REGIONAL OFFICE (Old Chicago Support Office)	Chicago, IL
DSC	DENVER REGIONAL OFFICE	Denver, CO
EMC	ELECTRON MICROSCOPY CENTER for MS RESEARCH at ARGONNE (BES) <i>user facility</i>	Argonne, IL
EMS	ENVIRONMENTAL MOLECULAR SCIENCES LAB - EMSL at PNNL (BER) <i>user facility</i>	Richland, WA
ETE	ENERGY TECHNOLOGY ENGINEERING CENTER	Canoga Park, CA
FER	FEDERAL ENERGY REGULATORY COMMISSION	Washington, DC
FLX	HIGH FLUX ISOTOPE REACTOR at OAK RIDGE NATIONAL LAB (BES) <i>user facility</i>	Oak Ridge, TN
FMP	FERNALD ENVIRONMENTAL MANAGEMENT PROJECT	Fernald, OH
FNL	FERMI NATIONAL ACCELERATOR LABORATORY	Batavia, IL
FSO	FERMI SITE OFFICE	Batavia, IL
GAD	GENERAL ATOMICS: DIII-D (FES) <i>user facility</i>	San Diego, CA
GBD	GAS BUGGY/GNOME COACH SITE	New Mexico
GFO	GOLDEN FIELD OFFICE	Golden, CO
GJC	GRAND JUNCTION PROJECT OFFICE	Grand Junction, CO
HBC	HEADQUARTERS, OFFICE OF HEARINGS AND APPEALS	Washington, DC
HCE	HEADQUARTERS, OFFICE CIVILIAN RADIOACTIVE WASTE MANAGEMENT	Washington, DC
HCF	HEADQUARTERS, CHIEF FINANCIAL OFFICER	Washington, DC
HCI	HEADQUARTERS, OFFICE OF CONGRESSIONAL & INTERGOVERNMENTAL AFFAIRS	Washington, DC
HCO	HEADQUARTERS, OFFICE OF CHIEF INFORMATION OFFICER (CIO)	Washington, DC
HCN	HEADQUARTERS, OFFICE OF COUNTERINTELLIGENCE	Washington, DC
HDN	HEADQUARTERS, OFFICE of DEPT'S REPRESENTATIVE to DEFENSE NUCLEAR FACILITIES SAFETY BOARD	Washington, DC
HDS	HEADQUARTERS, OFFICE OF DEPUTY SECRETARY	Washington, DC
HEB	HEADQUARTERS, OFFICE of SEC of ENERGY ADVISORY BOARD (Old DP Advisory Committee)	Washington, DC

<b>CODE</b>	<b>FACILITY</b>	<b>LOCATION</b>
HED	HEADQUARTERS, OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY	Washington, DC
HEE	HEADQUARTERS, OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY	Washington, DC
HEI	HEADQUARTERS, OFFICE OF ENERGY INFORMATION ADMINISTRATION	Washington, DC
HER	HEADQUARTERS, OFFICE OF SCIENCE	Washington, DC
HES	HEADQUARTERS, OFFICE of ENVIRONMENT, SAFETY, and HEALTH	Washington, DC
HEW	HEADQUARTERS, OFFICE of ENVIRONMENTAL MANAGEMENT	Washington, DC
HFE	HEADQUARTERS, OFFICE OF FOSSIL ENERGY	Washington, DC
HGC	HEADQUARTERS, OFFICE OF GENERAL COUNSEL	Washington, DC
HIA	HEADQUARTERS, OFC of ASSIST SECRETARY for POLICY and INTERNATIONAL AFFAIRS	Washington, DC
HHR	HEADQUARTERS, OFFICE OF HUMAN CAPITAL MANAGEMENT	Washington, DC
HII	HEADQUARTERS, OFFICE of INTELLIGENCE	Washington, DC
HLM	HEADQUARTERS, OFFICE OF LEGACY MANAGEMENT (Old Worker and Community Transition)	Washington, DC
HMI	HEADQUARTERS, OFFICE OF ECONOMIC IMPACT AND DIVERSITY	Washington, DC
HMT	HEADQUARTERS, OFFICE OF MANAGEMENT	Washington, DC
HNA	HEADQUARTERS, OFFICE of UNDER SEC for NUCLEAR SECURITY/ADMINISTRATOR for NNSA	Washington, DC
HNE	HEADQUARTERS, OFFICE OF NUCLEAR ENERGY, SCIENCE and TECHNOLOGY	Washington, DC
HPA	HEADQUARTERS, OFFICE of PUBLIC AFFAIRS	Washington, DC
HQR	HEADQUARTERS, OFFICE OF SECRETARY OF ENERGY	Washington, DC
HSA	HEADQUARTERS, OFFICE OF SECURITY AND PERFORMANCE ASSURANCE	Washington, DC
HUS	HEADQUARTERS, OFFICE of UNDER SEC for ENERGY, SCIENCE, and ENVIRONMENT	Washington, DC
IDO	IDAHO OPERATIONS OFFICE	Idaho Falls, ID
INH	INHALATION TOXICOLOGY RESEARCH CENTER	Albuquerque, NM
INE	IDAHO NATIONAL LABORATORY (Old INEEL)	Idaho Falls, ID
IPN	INTENSE PULSED NEUTRON SOURCE at ARGONNE (BES) <i>user facility</i>	Argonne, IL
KAL	KNOLLS ATOMIC POWER LABORATORY	Kesselring, NY
KCA	KANSAS CITY SITE OFFICE (Old Kansas Area Office)	Kansas City, MO
KCP	KANSAS CITY PLANT	Kansas City, MO
KIO	SANDIA SITE OFFICE (OLD KIRTLAND AREA OFFICE)	Albuquerque, NM
KOR	EAST TENNESSEE TECHNOLOGY PARK - K25 (Old K-25 Plant)	Oak Ridge, TN
LAN	LOS ALAMOS NATIONAL LABORATORY	Los Alamos, NM
LAO	LOS ALAMOS SITE OFFICE (OLD LOS ALAMOS AREA OFFICE)	Los Alamos, NM
LBL	LAWRENCE BERKELEY NATIONAL LABORATORY	Berkeley, CA
LBN	NNSA LAWRENCE BERKELEY NATIONAL LABORATORY	Berkeley, CA
LEP	LEXINGTON PROJECT OFFICE (Portsmouth/Paducah Project Office)	Lexington, KY



<u>CODE</u>	<u>FACILITY</u>	<u>LOCATION</u>
LER	LABORATORY FOR ENERGY-RELATED HEALTH RESEARCH	UC-Davis, CA
LLN	LAWRENCE LIVERMORE NATIONAL LABORATORY	Livermore, CA
LNS	LOS ALAMOS NEUTRON SCIENCE CENTER- LANSCE (BES) <i>user facility</i>	Los Alamos, NM
LSO	LIVERMORE SITE OFFICE	Livermore, CA
MBS	MIAMISBURG SITE	Miamisburg, OH
MFM	MOUND PLANT	Fernald, OH
MOA	MOAB SITE	Moab, UT
MOF	MIXED OXIDE FUEL FABRICATION FACILITY	Aiken, SC
MPC	MATERIAL PREPARATION CENTER AT AMES (BES) <i>user facility</i>	Ames, IA
NBL	NEW BRUNSWICK LABORATORY	Argonne, IL
NCE	NATIONAL CENTER FOR ELECTRON MICROSCOPY AT BERKELEY (BES) <i>user facility</i>	Berkeley, CA
NEM	NATIONAL ENERGY TECHNOLOGY LABORATORY (Old METC and FETC-WV)	Morgantown, WV
NEP	NATIONAL ENERGY TECHNOLOGY LABORATORY (Old PETC and FETC-PA)	Pittsburgh, PA
NER	NAT ENERGY RESEARCH SCIENTIFIC COMPUTING (NERSC) CENTER (ASCR) <i>user facility</i>	Berkeley, CA
NIF	NATIONAL IGNITION FACILITY	Livermore, CA
NPN	NONPROLIFERATION and NATIONAL SECURITY INSTITUTE	Albuquerque, NM
NPT	NATIONAL PETROLEUM TECHNOLOGY OFFICE	Tulsa, OK
NPU	NAVAL PETROLEUM RESERVES - #2 CALIFORNIA	California
NPW	NAVAL PETROLEUM RESERVES - #3 WYOMING	Casper, WY
NSL	NATIONAL SYNCHROTRON LIGHT SOURCE AT BROOKHAVEN (BES) U.F.	Upton, NY
NSO	NEVADA SITE OFFICE	Las Vegas, NV
NST	NSTX at PRINCETON (FES) <i>user facility</i>	Princeton, NJ
NTS	NEVADA TEST SITE	Mercury, NV
NVO	NEVADA OPERATIONS OFFICE	Las Vegas, NV
OIS	OAK RIDGE INSTITUTE for SCIENCE and EDUCATION	Oak Ridge, TN
ORB	WELDON SPRING SITE OFFICE	MO
ORN	OAK RIDGE NATIONAL LABORATORY	Oak Ridge, TN
ORO	OAK RIDGE OPERATIONS OFFICE	Oak Ridge, TN
ORP	OFFICE of RIVER PROTECTION	Richland, WA
ORR	OAK RIDGE RESERVATION	Oak Ridge, TN
OHO	OHIO FIELD OFFICE	Springdale, OH
ORT	CEBAF at THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY-HENP <i>user facility</i>	Newport News, VA
OST	OFFICE of SCIENCE and TECHNICAL INFORMATION	Oak Ridge, TN
PDC	PIT DISASSEMBLY CONVERSION FACILITY	Aiken, SC
PGA	PADUCAH GASEOUS DIFFUSION PLANT	Paducah, KY
PGD	PORTSMOUTH GASEOUS DIFFUSION PLANT	Portsmouth, OH
PNL	PACIFIC NORTHWEST NATIONAL LABORATORY (BATTELLE MEM INST)	Richland, WA
PNO	PACIFIC NORTHWEST SITE OFFICE	Richland, WA
PNR	PITTSBURGH NAVAL REACTORS OFFICE	Pittsburgh, PA
PPA	PANTEX PLANT	Amarillo, TX

<u>CODE</u>	<u>FACILITY</u>	<u>LOCATION</u>
PPF	PINELLAS PLANT	Pinellas, FL
PPP	PRINCETON PLASMA PHYSICS LAB (PPPL) PRINCETON UNIVERSITY	Princeton, NJ
PRO	PHILADELPHIA REGIONAL OFFICE (Old Phila Support Office)	Philadelphia, PA
PRS	PRINCETON SITE OFFICE	Princeton, NJ
PXS	PANTEX SITE OFFICE (Old AMARILLO AREA OFFICE)	Amarillo, TX
RBL	RIO BLANCO/RULISON SITE ( <i>Clean Up Sites</i> )	Rulison, CO
RFA	ROCKY FLATS FIELD OFFICE	Rocky Flats, CO
RFC	ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE (Old Rocky Flats Plant)	Rocky Flats, CO
RHI	RELATIVISTIC HEAVY ION COLLIDER (RHIC) at BROOKHAVEN (HENP) <i>user facility</i>	Upton, NY
RLO	RICHLAND OPERATIONS OFFICE	Richland, WA
RMO	ROCKY MOUNTAIN OILFIELD TEST CENTER	Casper, WY
RSF	HANFORD SITE	Richland, WA
RSL	REMOTE SENSING LABORATORY (Off NTS Site)	Mercury, NV
SEI	NATIONAL RENEWABLE ENERGY LABORATORY	Denver, CO
SEO	SEATTLE REGIONAL OFFICE	Seattle, WA
SEP	SOUTHEASTERN POWER ADMINISTRATION	Elberton, GA
SHO	SHOAL SITE	NV
SLA	STANFORD LINEAR ACCELERATOR CENTER - STANFORD UNIVERSITY	Stanford, CA
SLH	STANFORD LINEAR ACCELERATOR CENTER -SLAC (HENP) <i>user facility</i>	Stanford, CA
SNL	SANDIA NATIONAL LABORATORIES	Albuquerque, NM
SNR	SCHENECTADY NAVAL REACTORS OFFICE	Schenectady, NY
SOC	STANFORD SITE OFFICE	Stanford, CA
SPL	SPALLATION NEUTRON SOURCE-SNS at OAK RIDGE NATIONAL LAB (BES) <i>user facility</i>	Oak Ridge, TN
SPP	SEPARATIONS PROCESS RESEARCH UNIT	Unknown
SPR	STRATEGIC PETROLEUM RESERVE PROJECT OFFICE	New Orleans, LA
SRN	SAVANNAH RIVER NATIONAL LABORATORY	Aiken, SC
SRO	SAVANNAH RIVER OPERATIONS OFFICE	Aiken, SC
SRS	SAVANNAH RIVER SITE OFFICE	Aiken, SC
SRT	SAVANNAH RIVER TECHNOLOGY CENTER	Aiken, SC
SSR	STANFORD SYNCHROTRON RADIATION LABORATORY-SSRL (HENP) <i>user facility</i>	Stanford, CA
STL	SPECIAL TECHNOLOGIES LAB	
SVS	SOUTH VALLEY SITE	
SWP	SOUTHWESTERN POWER ADMINISTRATION	KS
TFS	TRITIUM FACILITIES SAVANNAH RIVER SITE NNSA	Aiken, SC
TJN	THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY	Newport News, VA
TJO	THOMAS JEFFERSON SITE OFFICE	Newport News, VA
TVF	TEVATRON at FERMI (HENP) <i>user facility</i>	Batavia, IL
WAP	WESTERN AREA POWER ADMINISTRATION	Golden, CO
WET	WESTERN ENVIRONMENTAL TECHNOLOGY OFFICE	
WIP	WASTE ISOLATION PILOT PLANT	Carlsbad, NM
WVP	WEST VALLEY DEMONSTRATION PROJECT	West Valley, NY

<u>CODE</u>	<u>FACILITY</u>	<u>LOCATION</u>
YMP	YUCCA MOUNTAIN SITE OFFICE (Old Site Characterization Office)	Beatty, NV
YMS	YUCCA MOUNTAIN SITE	Beatty, NV
YOR	Y-12 NATIONAL SECURITY COMPLEX	Oak Ridge, TN
YSO	Y-12 SITE OFFICE	Oak Ridge, TN

25. Approvals. The AIGs will sign all approved profiles prior to final submission to the Director, PA&QA. The Director, PA&QA will co-sign the profiles and assign project numbers. For the non-TeamRisk format profiles, copies of the approved/signed profiles will then be provided to the appropriate TL (audit group) and AD.

### **PLANNED AUDIT PROFILE (TEAMRISK PROJECT PROFILE)**

This format is used when preparing a planned audit profile for direct entry into the TeamMate application TeamRisk database. For additional direction on planned audit profile entry into TeamMate, refer to the *Office of Audits and Inspections TeamRisk Guide*.

1. Project Code. The DPAQA will assign, at job start, the project number for profiles that have been approved for inclusion in the annual work plan or that have been approved by AIGs. Therefore, the project code consists of "ODXX-GRP-XX-Preparer" where "O" represents the Office (i.e., "A" for Audits), "D" represents the Director (i.e., "C" for Central Audits Division, "E" for Eastern Audits Division, or "W" for Western Audits Division), "XX" represents the two-digit fiscal year of planning, "GRP" represents the audit group(s), "XX" represents the project number, and "Preparer" represents, as an option, the auditor(s).
2. Project Title. Enter the audit title.
3. Primary Program. Enter the appropriate Department program entity (i.e., Energy, Environmental Cleanup, Financial Assistance, Human Resources, Management & Administration, National Security & Safety, or Science & Innovations).
4. Subject Activity/Project (SubEntity). Enter the appropriate SubEntity for the audit.
5. Physical Location/Site(s). Enter the name of the Department location(s) or site(s) to be audited.
6. Background. Briefly describe the condition or situation that requires audit. This discussion may include reference to previous audit work in the same area, or any other applicable information that will enable OAI management to make a determination as to whether to include this proposed audit in the annual work plan. Also, indicate whether this is a follow-up audit. If so, identify the prior audit by report number, title, and date issued.
7. Profile Objective. The audit objective should clearly articulate what the audit is to accomplish. The auditor should bear in mind that the objective will have a significant impact on the amount of testing for compliance with laws and regulations, and internal controls that is required.

8. Justification for Project Selection. Each proposed audit will be assigned a risk ranking of “*High, Medium, or Low*” based on the Division's annual programmatic risk assessment prepared for the current work planning cycle. The overall programmatic risk assessment should be based on the individual site risk assessments prepared by various TLs at all major Department locations and activities that include examining such factors as site programs and major projects, new initiatives, sufficiency of recent audit coverage, and adequacy of internal controls. The results of these assessments should form the basis for all planned audits. Briefly explain why this audit is being proposed. It should refer to the risk assessment ranking and identify the number and description of pertinent risk factors (e.g., potential audit is relevant to four criteria in the FY 20XX (Program) Risk Assessment. Specifically, this audit area contains material funding, has a potential adverse consequence to the Department, directly supports a Secretarial initiative, and has been designated as a management challenge).

Key pertinent risk factors or risk assessment criteria to provide on the audit profile are:

- Material Dollars. Area of audit is significant in funding to the Department program or activity.
- Potential Adverse Consequences.
- Indication of Adverse Condition.
- Absence of Prior Audit Coverage.

Other pertinent risk factors or risk assessment criteria to provide on the audit profile are:

- Presidential Initiative. President's Management Agenda items or initiatives, such as the Obama Administration Plan for Energy, to which audit relates.
- Secretarial Initiative. Secretary's Priority and/or Initiative to which the audit relates.
- Management Challenge Area. Department challenges identified in the current year's Management Challenges Report to which the audit relates.
- Congressional or Media Attention. Issues receiving Congressional or media focus. For instance, GAO High-Risk areas to which the audit relates.
- DOE Annual Performance Goal. Department strategic goal and related target area(s) to which the audit relates.

9. Scope and Methodology. This section should discuss the scope of coverage and include a brief description of the methodology for answering the audit objective. Also, indicate in the methodology whether the audit may require the use of advanced audit techniques. If so, briefly describe the techniques to be employed and needed assistance (if any). Should assistance be required, provide an estimate, if possible, of duration in staff days.
10. Potential Finding. The preparer should, at a minimum, concisely describe the asserted condition, cause, effect and applicable criteria in as much detail as possible. Also, indicate whether economy & efficiency and/or measurable monetary accomplishments would be identified.

## AUDIT LEAD SHEET

1. Preparer. Enter the auditor name(s).

2. Original/Revised. Place an "X" after original or revised version.
3. Audit Title. Enter the audit lead title.
4. Short Title. Enter an abbreviated version of audit lead title.
5. Responsible Office & Code. Identify the audit group(s).
6. Background. Briefly describe the condition or situation that requires audit. This discussion may include reference to previous audit work in the same area, or any other applicable information that will enable OA management to make a determination as to whether to this proposed lead should be developed into a planned audit profile for annual work plan consideration.
7. Justification for Audit. Briefly explain why this audit lead is being proposed. It should refer to the risk assessment ranking and identify the number and description of pertinent risk factors (e.g., potential audit is relevant to four criteria in the FY 20XX (Program) Risk Assessment. Specifically, this audit area contains material funding, has a potential adverse consequence to the Department, directly supports a Secretarial initiative, and has been designated as a management challenge).
8. Obama Administration Plan for Energy Area. Identify objective from the Obama-Biden New Energy for America Plan to which the audit lead relates.
9. President's Management Agenda. Identify President's Management Initiative to which the audit lead relates.
10. GAO High-Risk Area. Identify objective from the GAO High-Risk areas to which the audit lead relates.
11. Management Challenge Area. Identify management challenge area identified in the current year's Management Challenges Report to which the audit lead relates.
12. Economy & Efficiency and/or Measureable Monetary Accomplishments. Indicate whether economy & efficiency and/or measurable monetary accomplishments would be identified.
13. Contract Audit Strategy Area. Indicate whether the audit lead falls into a contract audit strategy area (i.e., functional costs incurred by M&O contractor; cost estimating and costs incurred under Federal Acquisition Regulation based contracts; financial assistance programs; program effectiveness; M&O contractor internal audits of incurred costs, Cost Accounting Standards Disclosure Statements, and subcontract under the Cooperative Audit Strategy; and/or contractor assurance systems).
14. DOE Strategic Goal and Related Target Area. Identify the Strategic Goal and Related Target to which the audit lead relates.
15. Secretary's Priority/Initiative. Identify the Secretarial Priority and/or Initiative to which the audit lead relates.
16. Audit Objective. The audit lead objective should clearly articulate what the audit is to accomplish. The auditor should bear in mind that the objective will have a significant impact on the amount of testing for compliance with laws and regulations, and internal controls that is required.

17. Audit Approach. This section should discuss the scope of coverage and include a brief description of the methodology for answering the audit lead objective.
18. Potential Finding(s). The preparer should, at a minimum, concisely describe the asserted condition, cause, effect and applicable criteria.

## **CHAPTER 6**

### **AUDIT EVIDENCE AND DOCUMENTATION**

#### **A. SCOPE OF CHAPTER**

This chapter sets forth OA policies and procedures for obtaining and assessing audit evidence and for preparing, reviewing, managing, and protecting audit documentation.

#### **B. AUDIT EVIDENCE**

1. Sufficient, Appropriate Evidence. In accordance with GAGAS, OA auditors must obtain evidence that is both sufficient and appropriate to provide a reasonable basis for their findings and conclusions. The concept of sufficient, appropriate evidence is integral to an audit. Auditors, using their professional judgment, interpret the results of audit testing and evaluate whether the nature and extent of evidence obtained is sufficient and appropriate. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions.

2. Types of Evidence. In collecting audit documentation, auditors should obtain the "best" evidence possible to support a finding or issue. Three types of evidence, in descending order of "strength," are:

a. Physical Evidence. Evidence that is obtained by direct inspection or observation of activities, people, property, or events is called physical evidence. Such evidence can be documented by memoranda of observations, photographs, videos, drawings, charts, maps, or physical samples.

b. Documentary Evidence. Information obtained in a form already existing, such as letters, accounting records, invoices, official correspondence, contracts, reports, spreadsheets, database extractions, electronically stored data, and management information on performance are characterized as documentary evidence. Electronic documentation is preferred and should be requested. If not available in electronic form, documentary evidence should be scanned and included in the TeamMate audit file.

c. Testimonial Evidence. Statements received from others by inquiries, interviews, video and teleconferences, telephone conversations, questionnaires, and electronic mail constitute testimonial evidence.

3. Assessment of Evidence. Once evidence has been gathered, auditors frequently use analytical processes, such as computations, comparisons, and rational analysis, to determine whether the evidence is sufficient and appropriate. This assessment is made in the context of the audit objective and the related findings and conclusions. For example, even though the auditors may have some reservations or doubts about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions. When assessing evidence, auditors should evaluate (1) the expected significance of the evidence to the audit objective, findings and conclusions; (2) available corroborating evidence;

and, (3) the level of audit risk. Steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit report, and the audit objective. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings and conclusions within the context of the audit objective.

a. Appropriate Evidence. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objective. Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the audit objective and the issues being addressed. Validity refers to the extent to which evidence is a meaningful or reasonable basis for measuring what is being evaluated—extent to which evidence represents what it is purported to represent. Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

b. Sufficient Evidence. Sufficiency is the auditor's judgment of the quantity of evidence needed to address the audit objectives and support findings and conclusions. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The greater the audit risk, the greater the quantity and quality of evidence that will be required. Stronger evidence may allow less evidence to be used. However, a large volume of evidence does not compensate for evidence lacking in relevance, validity, or reliability.

c. Reliable Evidence. Auditors must ensure that the evidence is obtained from a reliable source and is accurate. In performing the overall assessment of evidence, the following factors should be considered:

- Original documents are generally more reliable than copies (e.g., a copy of a letter in a sender's file may not be the same as the letter actually sent).
- Evidence obtained from an independent source may provide greater assurance of reliability than that secured from the auditee.
- Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.
- Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
- Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under restrictive or intimidating conditions.
- Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

d. Evidence Limitations. Evidence has limitations when there are doubts about its appropriateness, or its validity and reliability have not been assessed or



cannot be assessed, given the audit objectives and the intended use of the evidence. Concerns about reliability of evidence can also result from errors identified by auditors in their testing of the evidence. Auditors should not use inappropriate or unreliable evidence as support for findings and conclusions. For example, evidence should not be used when the evidence carries an unacceptable high risk that the evidence could lead to an incorrect or improper conclusion or the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions.

Certain remedies that auditors can consider when they identify limitations or uncertainties in evidence include:

- Seeking independent, corroborating evidence from other sources;
- Redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence;
- Presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate, and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions; and,
- Determining whether to report as a finding the limitations or uncertainties of available evidence including any related, significant internal control deficiencies.

### **C. AUDIT DOCUMENTATION**

According to GAGAS, auditors must prepare audit documentation related to the planning, conducting, and reporting for each audit. It is OA policy that all audit documentation will be maintained in the electronic environment using TeamMate. The audit documentation file (traditionally called "workpapers") is the link between audit fieldwork and the report. Audit documentation is necessary to: 1) provide a systematic record of work performed; 2) assist staff members in summarizing audit results and preparing the audit report; and 3) provide a record of information and evidence supporting the findings, conclusions, and recommendations contained in a report. In addition, supervisors can evaluate audit documentation to determine audit progress and ensure that audit findings and conclusions are supported by sufficient, appropriate evidence. OA policies and procedures for audit documentation are as follows:

1. Basic Audit Documentation Requirements. It is OA policy to prepare audit documentation in accordance with GAGAS, which state that auditors should 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;
- Audit evidence obtained and its source; and,
- Conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

In addition, auditors shall exercise care to ensure that they prepare audit documentation that is complete and accurate, clear and understandable, and relevant.

## CHAPTER 6 -- AUDIT EVIDENCE AND DOCUMENTATION

- a. Complete and Accurate. Audit documentation should be complete and accurate to properly support findings, judgments and conclusions, and to demonstrate the nature and scope of the work conducted.
  - b. Clear and Understandable. Audit documentation should contain sufficient information and be structured so that supplementary oral explanations are not necessary. Audit documentation should be clear, concise and complete while minimizing excessive details.
  - c. Relevant. Audit documentation should be restricted to matters that are relevant to the audit objective. Extraneous audit documentation should not be maintained.
2. Electronic Audit Documentation. It is OA policy that all audit documentation will be maintained in the TeamMate electronic environment.
- a. TeamMate. TeamMate is the standard for documenting all OA audits. TeamMate provides a common platform for documenting, reviewing, storing and sharing work during and after the audit. Auditors will use TeamMate to prepare the official audit documentation for each audit. The OAI TeamMate EWP Protocol will be followed for all audits.  
  
If unusual circumstances disclose that TeamMate cannot be used, any exceptions to using TeamMate must be approved in advance by the DIGAI.  
  
Hard copies of documents should not be retained. The auditor should attempt to obtain supporting documents in electronic form to store in TeamMate. Otherwise, the auditor will need to scan the documents or information into electronic form for storage in TeamMate. Information on computer disks and tapes can be electronically imported into TeamMate.
  - b. TeamMate Workpapers. In TeamMate, the procedure summaries, procedure steps, and supplemental documentation are the principal workpapers in the audit file. Procedure summaries serve as the audit program and contain the procedure steps (audit steps) that are to be completed. For each audit area, the procedure summary will contain procedure steps to address that audit area along with supplemental documentation, such as spreadsheets, auditee documents, and other source documents. Each procedure step contains a Purpose, Scope, Source, and Conclusion (PSSC), and if necessary Results, as follows:
    - i. Purpose. There should be a clear statement regarding the purpose of the workpaper with emphasis on what the auditor is attempting to determine ("to determine whether..."). The purpose should generally require the auditor to make a determination of facts rather than just obtaining or documenting information required by the audit program.
    - ii. Scope. Time period covered, locations, or activities audited should be described along with a description of the work to be performed (i.e., methodology).
    - iii. Source. The source of information should be specifically identified in sufficient detail that others can evaluate the source and trace

the information back to that source. Include the source's name, title, location, and contact information, such as email address and telephone number. In most cases, it is preferable to show both the originator of a document as well as the source from which the auditor obtained the information.

iv. Conclusions. The conclusion should directly address the purpose ("determined that...").

v. Results. In addition to PSSC, this section, as needed, will provide a detailed factual summary of the evidence and details of the auditor's analysis.

3. Indexing/Cross-Indexing. Workpaper indexing and cross-indexing are to be performed electronically. TeamMate will automatically assign an index number to each procedure summary, procedure step and supplemental workpaper as it is added to the TeamMate audit file. Procedure summaries and procedure steps are not considered complete until cross-indexed. Cross-indexes should be created as soon as possible. This practice facilitates summarizing audit results, writing the report, and identifying and locating relevant material. AICs and TLs must ensure that workpapers prepared by staff members have been properly cross-indexed.

Normally, the auditor who prepares workpapers will also cross-index them to supporting documentation. In cross-indexing, auditors should try to anticipate how the audit documentation will be used to support a finding or conclusion. Most cross-indexes will normally be to a specific section or point in the supporting documentation. If cross-indexing to more than one supporting document or to more than one page in a document, additional TeamMate links are required. In addition, TeamMate includes a "legend" to explain the meaning of any tick marks or other symbols.

A supporting document, such as a copy of a contract or document provided by an auditee, is not considered a separate procedure step but must be cross-indexed to a procedure step. Therefore, it is not necessary to include PSSC on the supporting document. However, at a minimum, the source of the document should either be included in the procedure step or identified on the document.

In general, all facts shown in workpapers, such as figures, amounts, dates, and titles, must show a source, be cross-indexed to identical facts in supporting documents, or have an adequate explanation of how the auditor determined a particular fact. A reviewer should not have to re-perform computations or obtain oral explanations to determine the source and validity of stated facts. Where multiple items of information are needed to support a particular finding or conclusion, the auditor should prepare an audit summary to tie together the evidence relating to a particular topic, with information on the summary cross-indexed to the supporting documents.

4. Documenting Interviews, Communications and Oral Evidence. The results of meetings, interviews, video and teleconferences, phone calls, and other communications should be carefully recorded in the TeamMate audit file. Meetings include liaison visits and entrance, exit, and interim conferences. All write-ups are to include the following information:

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- Name, position, and office of individuals and official(s) interviewed and who were present;
- Names of the OA staff members who participated;
- Date, time, and place of the meeting or communication;
- Purpose and nature of subjects discussed; and,
- Conclusion that answers the stated purpose.

Oral evidence should be verified. If information is particularly significant to an audit, the person interviewed should be asked to read an interview write-up, make any necessary changes, and initial or sign the write-up to show their concurrence. If the person interviewed refuses to sign the write-up, it is unlikely much reliance should be placed on their statements. When it is necessary to get critical or sensitive information from an interviewee, two auditors should attend the meeting, and both should electronically sign the interview write-up to show their agreement on its accuracy. If incorrect statements by agency officials are identified, the incorrect statements should be identified, such as by a TeamMate coaching note, and linked to the correct facts.

5. Audit Summaries. Where multiple items of information are needed to support a particular conclusion, the auditor should prepare an audit summary (or lead schedule) in TeamMate to tie together the evidence relating to a particular topic. The audit summary should assist the auditor in analyzing evidence, identifying additional work needed, and evaluating reporting approaches. As information is summarized, it is advisable to discuss potential findings and conclusions with the auditee to ensure that all pertinent facts have been obtained or that there is not another reasonable interpretation of data or issues. In addition to assisting auditors in verifying the facts obtained, these discussions will also assist in efforts to identify the causes of adverse conditions identified in the audit. Summaries can also provide potential recommendations to correct adverse conditions. In addition, the auditor may add comments to the summary for the benefit of supervisors and others, such as problems encountered, lessons learned, or adjustments that should be made for future audit work. All summaries will be included in the TeamMate audit file and cross-indexed to supporting documentation.

Further, the TeamMate EWP "Issues" feature (i.e., AS1 folder) serves as a high-level summary of the finding elements and monetary impact categorization and amounts that will be included in the audit report, as well as, a basis for a variety of standard and ad-hoc OIG reporting purposes, such as performance and semi-annual reports. Therefore, AICs must ensure that findings and recommendations are captured within the "Issues" section of the TeamMate audit file prior to the issuance of the official draft of the audit report.

6. Documenting Supervisory Review. In accordance with fieldwork standards for supervision and audit documentation, OA supervisors must document their reviews of the audit file. AICs will review the TeamMate audit file biweekly and will electronically sign off each workpaper prepared by staff members after staff members have signed it. AICs will also prepare a memorandum for the record when TLs, ADs, DDs, or the AIG holds a job review that results in significant revisions to the audit objective, approach, or approved audit program. This memorandum should be provided to the respective supervisors for their concurrence and then retained in the TeamMate audit file. OA auditors will utilize the *Checklist For Job File Contents* in the TeamMate EWP Library

or audit file to assist in tracking the documentation of major decisions and milestones during the audit.

TLs and/or ADs are to review the TeamMate audit file monthly. TLs and ADs should document their review by signing off on each workpaper reviewed and/or by recording their comments using the TeamMate coaching note function. All coaching notes will be retained in the TeamMate audit file. TLs should ensure that all coaching notes have been responded to and outstanding issues resolved before the audit is completed. Differences of opinion between an auditor and a supervisor concerning audit-related issues will be presented to higher-level supervisors to be resolved. Significant issues and their resolution will be documented in the TeamMate audit file.

Reviews by the AIC, TL, and AD need to be completed and documented before draft reports are referenced. (See the TeamMate EWP Protocol for details of the referencing process.) Upon successful completion of supervisory review, the TL or AIC should prepare a workpaper indicating that the audit was performed in accordance with GAGAS. (See TeamMate EWP Library or audit file for *Statement of Conformance with Audit Standards*).

**D. MANAGEMENT AND PROTECTION OF AUDIT DOCUMENTATION**

Auditors should follow these policies and procedures for managing and protecting audit documentation:

1. Safeguarding Documentation During the Audit. Audit documentation is considered OIG property and will not be removed from OIG or auditee facilities without supervisory approval. Documentation will be safeguarded at all times to prevent improper disclosure or premature release of audit findings and other privileged, confidential, or sensitive information obtained during the audit, such as plans for future operations or procurement actions, information obtained to support fraud investigations, or special congressional requests. Auditors need to safeguard any sensitive data that has been entrusted to their care for evaluation or audit purposes. As noted in DOE M 471.3-1, such data is considered to be "for official use only" and must be protected accordingly.

Documents that include Personally Identifiable Information (PII), Official Use Only (OUO), and Unclassified Controlled Nuclear Information (UCNI) can be stored in TeamMate because it incorporates adequate encryption and password protection safeguards. If a supporting document or audit step contains PII, OUO, or UCNI, the auditor **MUST** include "PII," "OUO," or "UCNI" in its title. All PII, OUO, and UCNI not in TeamMate that is on laptop computers or any other form of portable media (thumb drive, CD, or other disk) must be encrypted using Entrust prior to being transported outside the physical boundaries of the workplace. Auditors must also use care when transmitting sensitive information via electronic means. For example, items such as PII or information on cyber security vulnerabilities should not be transmitted by unsecured email. Auditors should also ensure that sensitive files are appropriately and completely removed from laptop computers when they are no longer needed. Simply deleting a file will not remove the entire file from the hard disk or from devices such as thumb

drives or disks. For assistance, contact your local computer support teams to permanently delete a file.

2. Retention and Safeguards for TeamMate Audit Files. Auditors should apply reasonable care in safeguarding audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Audit files are retained, generally for a period of 10-years from report issuance, in accordance with the OAI's approved Records Inventory and Disposition Schedules. (Additional information can be found in the Department of Energy Administrative Records Schedule). To maintain the integrity, accessibility, and availability of the underlying TeamMate project file information for the duration of the retention period, safe custody and retention practices should be taken to ensure the documentation is not altered, added to, or deleted without the auditors' knowledge, or the documentation is not lost or damaged.

In accordance with the TeamMate EWP Protocol, TeamMate projects will be archived and made read-only files by a National or Divisional TeamMate Champion after the audit team completes all required work and closure steps, and has captured the final report in the project file. The finalized TeamMate project serves as the official record and will reside and be maintained within the central database for the duration of the retention period.

3. Safeguarding Classified Audit Files. Special safeguards should be used for storing and safeguarding classified information. Detailed instructions with respect to the handling, controlling, storing, and mailing classified information are contained in Department Order 470.4B, *Safeguards and Security Program*, and in Department Manual 470.4-4A, *Information Security Manual*, and in OIG Directive IG-908H, *Office of Inspector General Security Policy*. All OA personnel, including auditors and auditors under contract, must be familiar with and observe the procedures and controls established by these instructions for safeguarding all classified information that comes into their possession. For classified computer processing, OIG personnel will adhere to requirements of the classified computer security program at the host site, including all technical provisions of that program. In addition, the TeamMate EWP Protocol contains procedures for OAI personnel to follow relating to classified audits or engagements.

4. Freedom of Information Act (FOIA) Requests. The OIG receives many requests for information under FOIA; occasionally, copies of audit documentation must be provided in response to such requests. Processing FOIA requests can require many hours to scrutinize the contents and write a formal response to the requester. Below are some specific considerations and procedures that auditors can follow to better assist the OIG in dealing with FOIA requests.

a. Anticipate FOIA requests. In preparing the TeamMate audit file, auditors should ensure that all data, schedules, and analyses clearly identify the source and indicate whether the documents were provided or prepared by the auditee. Also, auditors should ensure that all PII, OUO, UCNI, contractor proprietary, sensitive, and Privacy Act (PA) information in the TeamMate audit file is clearly identified. In addition, non-essential information should not be included in TeamMate audit files. Once an FOIA request has been received, it is OIG policy that no records relating to the request will be destroyed.

## CHAPTER 6 -- AUDIT EVIDENCE AND DOCUMENTATION

- b. Processing FOIA Requests. FOIA requests will be processed in accordance with Title 10, CFR Part 1004 (10CFR1004), Department of Justice, *Guide to the FOIA*, PA and Department Order 206.1, *Department of Energy Privacy Program*. Within OAI, the DIGAI is the "Authorizing and/or Denying Official" for issuing decisions concerning OA records and audit documentation. In dealing with specific audit reports and audit documentation, the originating office will usually be tasked with assisting with the response in coordination with OPAQA and the FOIA/PA Officer within the Office of OIG Counsel. Additional detailed procedures for processing FOIA requests are provided in the OIG FOIA/PA Standard Operating Procedures (SOP).
5. Permanent Files. Permanent files contain information of a continuing or recurring nature, which may be useful in succeeding assignments. These files serve to assist in planning future work, as well as readily accessible summary information on work already performed and on reports issued. Examples include contract documents, laws, regulations, guidance, budget information, and copies of prior audit reports. The AIGs and DDs are responsible for establishing procedures for the maintenance, periodic review, and retention of permanent audit files. Material that is obsolete or no longer pertinent should be removed from the files and properly disposed. Permanent files can be in either hard copy or electronic form.

## **CHAPTER 7**

### **ADVANCED AUDIT TECHNIQUES**

#### **A. SCOPE OF CHAPTER**

This chapter establishes policies and procedures for the OA staff in the routine use of advanced audit techniques. Its purpose is to ensure that data obtained from computer-based systems is reliable and accurate, computer assisted audit techniques are used whenever possible, and advanced audit techniques are employed when appropriate.

#### **B. AUDITING UTILIZING INFORMATION TECHNOLOGY**

To prepare objective and convincing audit reports, auditors must obtain sufficient and appropriate evidence to support findings and conclusions. This requires auditors to collectively possess adequate professional proficiency to be able to (1) audit organizations where information technology (IT) or computer operations are integral to the operations being evaluated and (2) use computer assisted audit techniques (CAATs) or other advanced techniques to collect and analyze audit evidence. Because the Department's activities far exceed the resources available to the OA, the staff must use available resources efficiently. Often, using CAATs or other advanced audit techniques may be the most economical and effective way to accomplish audit objectives.

1. Developing Advanced Technical Capabilities. The Technology Audit Group (TAG) will assist audit teams in areas requiring technical expertise, to include helping auditors obtain the skills or abilities needed to review general or application system controls, test data reliability, or to effectively use CAATs. TAG can also help to ensure that the audit teams are aware of:

- Prior OIG, GAO, or other audit or internal review coverage involving general and application controls or tests of data reliability that may satisfy audit objectives;
- Known vulnerabilities, weaknesses, or risks involving common systems software or major applications such as the Department's financial management systems; and/or,
- Appropriate criteria for reviewing general and application controls, such as relevant publications issued by GAO or the National Institute of Standards and Technology (NIST).

2. Evaluating Computer Processed Data. If an auditee maintains and processes necessary audit evidence on computer systems, the OA will achieve the most effective and efficient audit procedures through access to the audit data in an on-line, read-only capability or to receive the information off-line in electronic form (on a CD, DVD, etc.). The considerations for using such data are the same as data obtained through traditional non-IT sources. Specifically, the data must be consistent, valid, and reliable. Accessing information on-line or in other electronic forms can have tremendous advantages by allowing tests to be performed on the data universe rather than restricting audit analysis to a limited sample. During the planning stage, auditors should consider whether each



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new or proposed audit is a good candidate for direct access to computer data and/or the use of CAATs.

a. Accessing Existing Data. Several options exist for the auditor to access existing data. An auditor can (i) obtain on-line access to the system or a copy of an existing underlying database, or (ii) arrange for the auditee to provide extracts of the necessary information. Each approach has advantages and disadvantages.

(1) On-Line Access. This method of obtaining data is the most desirable of all options in that it provides the auditor access to the production data being used by the activity being audited. In most situations, it will also afford the auditor the greatest degree of flexibility and should enhance audit effectiveness. Auditors will normally have to obtain permission from the custodian of the data, as well as the necessary user names and passwords to obtain on-line access to a system. However, auditors must ensure that they have the skills necessary to make efficient and effective use of this access. In addition, requested access should be limited to "read-only" to ensure that existing data is not compromised.

(2) Obtaining a Copy of the Database. Generally, obtaining data in an electronic format is more efficient than receiving data in paper form. Auditors obtaining database copies need to ensure that they (i) have access to hardware and software compatible with the form in which the data is received; (ii) can make efficient and effective use of the data; and (iii) can store the data in accordance with audit documentation retention guidelines.

(3) Hard-Copy. In some cases, the auditee may prefer to extract the necessary data from the system and to provide it in hard-copy form. This option is the least efficient of all methods for obtaining data and should be avoided when possible. Computer analysis of such data will require either re-keying the data or using Optical Character Recognition (OCR) scanners, both of which are labor-intensive and increase the potential for errors in the data. As with other approaches, the auditor needs to ensure that the data provided is a reliable and correct representation of the data in the system (i.e., by tracing a sample of the hard-copy evidence back to the system from which it was extracted).

b. Reimbursement for Information Technology Services. When relevant, auditors should not hesitate to obtain information from computer-based systems or to accept assistance from the auditee in obtaining such information. However, it is OA policy to not reimburse auditees for their costs when such assistance is provided. An audit is an integral part of an organization's cost of doing business and, as such, resources required by auditors represent appropriate costs to the organization being audited and are not reimbursable.

c. Use of the Internet. The Internet is an extremely valuable audit and information gathering tool. In addition to information available through the use of search engines and other data mining tools, a number of the Department's databases and applications are available on-line. For example, the Department's core financial and procurement applications, Standard Accounting and Reporting

System (STARS) and Strategic Integrated Procurement Enterprise System (STRIPES), have Web-based interfaces. In addition, the I-MANAGE Data Warehouse (IDW), which contains critical information from multiple corporate systems such as human resources, payroll, procurement, and financial management, is Web-based. Finally, most directives and Department publications are also available from the Department's Web site and various Web sites sponsored by Department programs.

Auditors should consider using the Internet in all situations where the appropriate level of data validation can be performed. As with all other audit evidence, the level of validation necessary is directly related to the use of the data. For instance, information used as background or for supplemental purposes requires less validation than evidence considered critical to an audit finding. While validation or confirmatory procedures must be performed on such information, it should not rise to the level described under "Assessing Data Reliability" below. Information obtained from on-line systems such as STARS and STRIPES differs from other archival type information available on the Internet. In these situations, the Internet is merely used to facilitate access to Department databases. If information gathered from such sources is considered to be an integral part of the audit, the reliability of the data must be assessed.

**C. ASSESSING DATA RELIABILITY**

When information from computer-based systems is part of an audit, the reliability of that data becomes crucial in achieving audit objectives. In such instances, auditors should assess the sufficiency and appropriateness of computer-processed information, regardless of whether the data are (i) extracted independently by the auditor or (ii) provided to the auditor. The nature, timing, and extent of audit procedures involved in making this assessment depends heavily on the auditee's information systems controls and the significance of the information in fulfilling the audit objective. In addition, auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives. As a result of these considerations, data reliability testing procedures may be either limited or extensive.

Auditors should determine if officials of the audited entity or other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If the results of such work are current, auditors may be able to rely on that work. Auditors are responsible for (1) conducting tests and procedures to ensure the reliability of the data being used; and/or, (2) reviewing general and application controls. In addition to the guidance below, the GAO publication *Assessing the Reliability of Computer-Processed Data* can be helpful in designing a methodology for assessing data reliability.

1. Determining When to Assess Reliability of Data. For each assignment, the AIC will determine the significance of data from information systems in developing the audit results. In making this determination, the auditor should consider the following factors:

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- The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems;
- The availability of evidence outside the information system to support the audit's findings and conclusions; and,
- The relationship of information systems controls to data reliability and the audit objective.

If the data is considered critical, then the audit team performing the test work is responsible for ensuring the reliability of computer-processed data used during the audit. However, if the information is not critical to the audit results, then citing the source of the information and stating that it was not verified will usually satisfy the accuracy and completeness reporting standards.

2. Testing for Data Reliability. If audits of general and application controls have been performed recently, auditors may be able to cite them as a basis for relying on data from computer-based systems. However, if such controls have changed substantially, have not been reviewed or have been found to be unreliable, the audit staff should determine the validity and reliability of computer-processed data through direct tests to assure that the information that they desire to use is reliable, current and consistent with its intended use. Such testing could include:

- Verifying that computer processing is accurate and complete, such as testing a formula used in specific data elements or processing sample transactions through the system.
- Tracing selected information in the system to source documents or performing physical counts or inspections.
- Confirming the accuracy and integrity of data in the system by interviewing sources independent of the auditee (i.e., third parties such as regular users or suppliers of data from the application).
- Reviewing the auditee's own test procedures and results and determining whether there are limitations on how the information can be used to correct control weaknesses.

Keep in mind that auditors are not attesting to the overall reliability of the data or database. Rather, auditors are simply determining the reliability of the data needed to support the findings, conclusions, or recommendations of the audit. In addition, the approach utilized and results of assessment on data reliability, at a minimum, should be included in the Scope and Methodology section of the audit report. Likewise, auditors should disclose when no assessment of data reliability was performed as part of an audit. Examples of language suitable for use in reporting on data reliability methodology can be found in Exhibit A.

**D. ASSESSING INFORMATION SYSTEM CONTROLS**

Information system controls are often an integral part of an entity's internal control. The effectiveness of significant internal controls is frequently dependent upon the effectiveness of information systems controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.

Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. Prior to beginning audit procedures to assess information system controls, the AIC must ensure that the audit team collectively possesses information technology skills appropriate for the work being performed. If the team does not possess such skills, the TAG should be consulted to determine how to obtain evidence necessary to support the audit.

The audit work should include an appropriate examination of the system's internal controls that includes evaluating the design and operating effectiveness of the system's general and application controls. Auditors should obtain a sufficient understanding of information system controls necessary to assess audit risk and plan the audit within the context of its objectives. Auditors, with appropriate levels of technical competence, should also identify and test general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

1. General Controls. General controls (entity-wide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. The reviews should seek to determine whether the controls have been designed according to management direction, and are operating effectively to provide reliability of, and security over, the data being processed.
2. Application Controls. Application controls are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interfaces, and data management system controls. Application controls generally operate only at the application level, for example, controls that enhance the integrity of information, such as edit checks that ensure a valid date or an appropriate numerical sequence or that identify missing documents. In addition, application controls can include the automation of control processes, such as the matching of purchase orders with receipt records and invoices. Specific controls that should be addressed include those for:
  - Ensuring that only authorized data is input, and that it is processed promptly, accurately, and completely;

- Protecting the integrity of the application software, to include ensuring that the software and later modifications are authorized and tested before implementation; and,
  - Ensuring the integrity of output, whether in a batch mode or on-line and the correct and timely distribution of outputs produced.
3. User Controls. User controls are portions of controls that are performed by people interacting with information system controls. A user control is an information system control if its effectiveness depends on information systems processing or the reliability of information processed by information systems.

Auditors can reduce the direct tests of data if they test the effectiveness of general and application controls over computer-processed data and these tests support the conclusion that the controls are effective. If auditors determine that internal controls over data that are significantly dependent upon computerized information systems are not effective or if auditors do not plan to test the effectiveness of such controls, auditors should include audit documentation regarding the basis for that conclusion by addressing (1) the reasons why the design or operation of the controls is ineffective; or, (2) the reasons why it is inefficient to test the controls. In such circumstances, auditors should also document their reasons for concluding that the planned audit procedures, such as direct tests of the data, are effectively designed to achieve specific audit objectives.

The results of such tests should be documented in the audit documentation accompanied by flow charts or narratives identifying system controls over the data. Conclusions reached should be cross-indexed to the audit program and final report. If such testing is not performed or if data reliability cannot be established, auditors may need to adjust their audit program or qualify the audit report accordingly.

***E. STANDARDIZED DATA COLLECTION TECHNIQUES***

On some audits, it is necessary to collect data from multiple sources in a standardized format in order for audit objectives to be achieved. However, such data collection can be costly, time consuming, and subject to constraints. Auditors should ensure that they do not request information that is readily obtained from Internet or literature searches, unstructured interviews, agency files, or contractor reports, and that they minimize the burden on respondents asked to furnish information.

1. Types of Data Collection Instruments. The major types of data collection instruments are "pro forma" workpapers, structured interviews, telephone interviews, and mail questionnaires. Pro forma workpapers are generally used when reviewing and recording information in a standardized format from an auditee's files or from records maintained by persons or organizations affected by a Departmental program. Structured interviews involve the scheduling of face-to-face interviews in order to obtain an understanding of processes used and responses to a questionnaire or a structured interview form. Because this approach can be costly and time consuming, auditors need to be sure they have justified such methodology before it is adopted. Telephone interviews are a special form of a structured interview. Although these interviews are relatively quick and inexpensive, auditors need to ensure that they can justify the time required of respondents. Questionnaires are considered an inexpensive method for

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collecting information on a wide scale. Considerable time can be expended in preparing and testing questionnaires; therefore, their use should be warranted. In addition, in some cases, approval could be required to use such instruments.

2. Approval Procedures. In some cases, data collection instruments could be subject to Department or OMB approval procedures, particularly if information is collected from contractors or financial assistance recipients. Therefore, questionnaires or structured interview forms must be submitted to and approved by the responsible AIG if use will involve 10 or more private citizens, private firms, or local governments; 5 or more state governments; and 25 or more officials or employees of the Department or other Federal agencies. The AIG will be responsible for determining the coordination, if any, required with the Department. Data collection instruments that will be used one time and are not considered being information collection or interagency forms do not require approval or form numbers. Nevertheless, the AIC shall ensure that there is a legitimate need for the instrument before it is used.

3. Planning and Testing an Approach. Effective use of questionnaires or structured interview forms requires that the instruments be tested. Auditors have to determine which type of collection instrument to use and to ensure that the questions to be asked will elicit the appropriate response.

4. Data Collection and Analysis. After the information is received from respondents, it has to be tabulated and analyzed in terms of the audit objective. Auditors need to determine in advance how they will transfer information from questionnaires to spreadsheets or databases, the response rates required for valid data, and how to deal with invalid responses.

5. Use of Computer Assisted Auditing Techniques. The auditor should consider whether the use of the Audit Control Language (ACL) application is appropriate for analyzing, examining and interpreting data collected from auditees. In most cases, ACL can be used to examine an entire population of data, increasing the accuracy of results, and reducing the need to rely on data sampling and projection. The audit workpapers should document appropriate consultation with the National TeamMate Champion to determine the feasibility of using ACL during the audit.

### **F. SAMPLING TECHNIQUES**

Sampling is a process of examining or measuring a smaller group of items (a "sample"), in order to draw conclusions and make generalizations about a larger group of items (a "universe" or "population"). To make valid conclusions and generalizations about a universe, a sample must be selected from and be representative of that universe.

1. Sampling Methodologies. An auditor must select a particular sampling methodology, appropriate testing process, and accounts to be tested. The methodology selected depends on several factors, including characteristics of the universe and the type of testing to be performed. After testing procedures have been completed, the results of the sample may be used to draw conclusions about the universe. Common sampling methodologies include:

a. Attribute Sampling. Attribute sampling is a procedure in which selected units are evaluated for the existence of particular characteristics or inherent

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qualities (i.e., attributes). A statistical measure is then computed to estimate the proportion of the population with the attribute.

b. Cluster Sampling. Cluster sampling is a procedure in which groups of items, rather than individual items, are selected for testing. For example, the universe may consist of contracts, but the sample will consist of all contracts handled by selected contract offices.

c. Discovery Sampling. Discovery sampling is a procedure used to test for the existence of sampling units with a particular characteristic. If the sample turns up items with that characteristic, the auditor will know that the error rate exceeds a tolerable rate, and the audit can be adjusted accordingly. If such items are not found, the auditor can make a probability statement that the rate of occurrence is less than the specified tolerable rate.

d. Judgment Sampling. Judgment or non-statistical samples are based on the auditor's knowledge or judgment about the characteristics of a population rather than on statistical sampling concepts. Such samples can be useful in conducting audit work, particularly as a means of increasing the auditor's knowledge about certain portions of a universe. The results from this methodology cannot be projected to the intended universe. For example, auditors may deliberately select cases that represent the largest dollar amounts or potential for error. Judgment samples may be of value, but this sampling must be used with care to avoid drawing invalid conclusions about the population from which the sample was drawn. In addition, the auditor should ensure that the results of non-statistical sampling are properly identified in audit reports so that a reader does not draw an invalid conclusion about the audit's findings.

e. Multi-stage Sampling. Multi-stage sampling is conducted in stages, such as by first randomly sampling locations and then by randomly sampling items within each selected location.

f. Simple Random Sampling. The simple random sampling method assumes that the population is homogeneous, is in one location, or can be sampled from a single frame if in several locations and that there is only moderate variation among the values of the items in the universe.

g. Stratified Sampling. Stratified sampling occurs when the universe is divided into two or more parts and a random sample is selected from each part. This type of sample might be chosen if the universe is divided up among several locations and it is not possible to develop a single sampling frame.

h. Variable Sampling. A sample in which selected units are evaluated for values or characteristics (i.e., variables) that can be expressed either numerically or quantitatively, and that may vary from one observation to another.

2. Sampling Terminologies: In addition, the auditor should be familiar with the following sampling terminology:

a. Confidence Level. The confidence level is a measure (usually expressed as a percentage) of the degree of assurance that estimates (lower and upper confidence limits) enclose the population's true value.

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- b. Population. The population consists of all the items in the group or universe being audited.
  - c. Precision. The precision is a measure of the proximity of a sample estimate to the corresponding population characteristic.
  - d. Sample Size. The sample size is the number of items to be tested from the universe. The appropriate sample size is determined based on several factors, such as the confidence level and the tolerable rate of error.
  - e. Sampling Error. The sampling error is the difference between the value obtained from sampling and that which would have been obtained by examining every item in the population.
  - f. Sampling Frame. The sampling frame is a listing of all the population elements from which the sample will be selected. It should permit the sampler to identify and locate all items drawn into the sample and to differentiate this item from all other items in the sampling frame. For example, if the universe has been defined as the civilian work force at a contractor facility, the list of workers from which the sample is drawn should include all civilian workers as of a specific date, should contain no duplicate entries, and should contain no entries not in the universe.
  - g. Sampling Unit. The sampling unit is the individual element, or collection of elements, to be sampled. In a payroll audit, for example, the population could be defined as individual employees or pay periods (i.e., "logical" units), or as dollars (i.e., "numerical" units).
  - h. Tolerable Error. The tolerable error is the specified precision or the maximum sampling error used that will permit the results to be useful.
3. Determining a Sampling Approach. Auditors should design sampling methodologies to provide reasonable assurance that the results are sufficient to support the audit's findings and recommendations. The specific audit objective; availability of data from which a sample is to be selected; and intended use of the sampling results will help the auditor to determine the most advantageous sampling approach.
- a. General Considerations. In general, there are no rigid rules as to the sampling approach that should be used on a particular audit. Rather, in developing a sampling approach that minimizes the amount of audit work, but that still gives useful results, the auditor needs to consider such factors as the following:
    - Why is sampling necessary and how will it contribute to the overall audit objective? An important consideration to remember is that a sample is intended to be representative of a larger population. If auditors can efficiently review an entire population rather than a sample, they should normally do so. For example, an audit objective to determine if contract expenditures are allowable might be accomplished by 100 percent review if the contract data is available in electronic format. On the other hand, a judgment sample of the largest contract transactions might equally satisfy the audit objectives.



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- How long will it take to evaluate each sampling unit? If 2 to 3 days are needed to review each sample item, a large sample size may not be feasible.
- What is the expected error rate or variance in the population and how does the expected error rate compare with the tolerable rate? If the auditor expects a 50 percent error rate, but has criteria to show that the rate should not exceed 1 percent, a large sample will not be needed to show that there is a problem. On the other hand, an expected 2 percent error rate and a tolerable 1 percent error rate will require a much larger sample.
- How precise does the auditor need to be in determining individual amounts, and how confident does the auditor need to be in the final results taken as a whole? Greater precision and confidence will normally be needed to support a recommendation to recover \$1 million than to support a recommendation that internal controls need to be improved.

b. Preparing a Sampling Plan. In terms of planning and managing audits that involve statistical sampling, auditors should specifically address the characteristics listed below. This can be done by completing the sampling plan found in the TeamMate EWP Library or audit file.

(1) Objective. The objective describes the purpose to be achieved with the use of the sampling methodology and its contribution to the overall audit objective.

(2) Audit Universe/Population. Auditors need to carefully identify the population from which a sample will be selected because sampling results will be affected by the reliability of the data from which the sample is drawn and how sampling items are defined.

(3) Sample Size. In determining the size of sample, auditors should initially determine the needed precision and confidence levels. These levels, in turn, are dependent on the universe size, the types of analysis planned, and the sampling method used. However, the process of determining sample size is not solely mechanical in nature; it also requires auditors to determine the tradeoff between the desire for greater precision and time constraints, effort, and costs associated with assessing a large sample. Some general rules that may help auditors determine the sample size include:

- In sampling for attributes, the auditor will normally have to select at least 30 items. Also, the definition of what constitutes an error and tolerable deviation rates should be determined before a sample is selected. For example, in a control review, the auditor should determine what constitutes a significant or material error, and how many deviations can occur before controls are deemed to be ineffective.
- In sampling for variables, the auditor should normally select a sample that will generate at least 15 to 20 error values. Thus, with an expected 5 percent error rate, a sample size of

300 to 400 items would be needed to generate the 15 to 20 error values necessary to accurately project dollar impact. On the other hand, a sample of 30 to 40 items would normally generate a reasonable projection if a 50 percent error rate were encountered.

- In selecting a stratified sample, at least 20 items should be selected in each stratum. If the number of items in a particular stratum is less than 20, all of the items should be reviewed. In order to project variables, the auditor should ensure that the sample size in each stratum is large enough to generate 8 to 10 errors. The total sample, i.e., all strata, should generate 15 to 20 errors in order for the auditor to ensure useable results.

(4) Sample Selection. In order for a statistical sample to be used to make inferences about the universe, it must be based on the laws of probability. In most cases, random number sampling using computer-generated random numbers (utilizing an application such as Microsoft Excel, ACL, or Army Audit or DCAA software) is the preferred method of selecting a sample because every sampling unit has the same probability of being selected. This method will also provide the auditor the most flexibility in adjusting to unexpected error rates and expanding or decreasing the sample size, particularly if sample items are reviewed in the same order that the random numbers were generated. Random based methods such as sequential or haphazard are permissible. However, other methods of selecting sample items, such as systematic sampling, may result in a biased sample if the population is not arranged randomly.

(5) Intended Use of Sample Results. The sampling plan should also include a discussion of how the sample results will be used.

c. Analyzing and Using Sample Results. Auditors must use care in analyzing and presenting sample data. For example, if auditors selected samples consisting of 100 contract files at each of three audit sites, they might desire to present the combined results of their work. This could lead to inaccurate conclusions if the universe at each of the sites differs, such as 1,000 at one site, 5,000 at another, and 10,000 at the third. Combined results would be correct only if the sample results were weighted to reflect the differing number of contract files at each site.

d. Documentation Requirements. If statistical sampling is used, auditors must ensure that audit documentation includes:

- Basis for sample selection;
- Size of audit universe;
- Sampling attributes such as error rates, sample interval, and confidence levels;
- Results of the sample; and

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- Basis for projecting sample results.

If non-statistical sampling is used, audit documentation should include judgmental sample documentation such as the size of the universe. In addition, when sampling significantly supports audit findings, conclusions, or recommendations, the Scope and Methodology section of the audit report should include a description of the sample design and why the design was chosen and whether the results can be projected to the intended population. Examples of language suitable for use in reporting on sampling methodology can be found in Exhibit B.

**EXAMPLES OF REPORTING ON DATA RELIABILITY METHODOLOGY**

When auditors assess the sufficiency and appropriateness of computer-processed information as part of an audit, the Methodology section of the audit report should, at a minimum, disclose that approach utilized and results of the assessment. Likewise, auditors should also disclose when no assessment of data reliability was performed as part of an audit. The following examples provide language suitable for use in reporting on data reliability methodology:

- We did not rely on computer-processed data to accomplish our audit objective.
- We conducted an assessment of computer-processed data relevant to our audit objective and found it to be sufficiently reliable.
- We relied on computer-processed data to a limited extent to accomplish our audit objective and performed appropriate tests to validate the results.
- We relied on computer-processed data to some extent to satisfy our objective related to security management. We confirmed the validity of such data, as appropriate, by conducting interviews and reviewing source documents.
- We did not solely rely on computer-processed data to satisfy our audit objective. Computer assisted audit tools were used to perform probes and scans of various networks and drives. We validated the results of the scans by confirming the weaknesses disclosed with responsible on-site personnel and performed other procedures to satisfy ourselves as to the reliability and competence of the data produced by the tests. In addition, we confirmed the validity of other data, when appropriate, by reviewing supporting source documents.

**EXAMPLES OF REPORTING ON SAMPLING METHODOLOGY**

The Methodology section of the audit report should disclose whether a non-statistical or statistical sample was used as a basis for the audit conclusions, where significant. Also, details concerning the sample universe, sampling method, and sampling unit should be disclosed in the section along with a statement as to whether or not the sampling results can be projected to the universe that the sample comes from. Where projections are made, confidence level, precision level and expected error rate should be disclosed. Finally, when the results are not projected, the reason should be explained. The following examples provide language suitable for use in reporting on sampling methodology:

- To accomplish our audit objective, we used a judgmentally selected sample of 14 of 110 cooperative agreements to determine whether documentation in the files was complete. A non-statistical sample design was chosen because of the relatively small size of the universe. Also, a small number of cooperative agreements composed about 80 percent of the \$40 million dollar value of the universe. Sample selection was random and based on such factors as program, dollar value, and period of performance. Because selection was based on a judgmental or non-statistical sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of cooperative agreements subject to audit.
- To accomplish our audit objective, we judgmentally selected a sample of six Department sites or locations from a universe of 36 Department sites or locations. This selection was based on the locations constituting a significant portion of the Department's budget and the availability of staff at the locations. Because a judgmental sample of sites or locations was used, results are limited to the sites or locations selected.
- To accomplish our audit objective, we used a statistically selected sample of 341 of 1,038 expenditures to determine whether documentation was sufficient to support the claimed costs. A confidence level of 90 percent, a precision level of + or – 6 percent, and an expected error rate of 10 percent was used to determine the sample size. A statistical sample was selected to enable projection of the sample results across the entire population or universe of expenditures.
- To accomplish our audit objective, we selected statistical attribute samples of 70 CDP cases (population 41,343) and 70 EH cases (population 10,489) to determine whether adequate support existed for the costs claimed. A confidence level of 90 percent, a precision level of + or – 6 percent, and an expected error rate of 10 percent was used to determine the sample sizes. Statistical sampling was used to enable us to project the sample results across the entire population of CDP and EH cases.

## **CHAPTER 8**

### **ASSURING A QUALITY REPORT**

#### **A. SCOPE OF CHAPTER**

This chapter sets forth the policies and practices for assuring that the OA issues quality reports. These policies and procedures also apply to Management Alerts issued by OA.

#### **B. REVIEW OF AUDIT DOCUMENTATION**

General procedures for timely review of audit documentation are provided in Chapter 6. Particularly important to assuring a quality report are the requirements for timely reviews before the draft and final audit reports are prepared, referenced, and issued. The TeamMate project or audit file must document that the AIC, TL, and AD performed sufficient reviews to demonstrate that they concluded that the documentation adequately and sufficiently supported the audit results that will be presented in the audit report. The resolution of reviewer comments should also be documented in the TeamMate project or audit file.

#### **C. REVIEW OF REPORTS**

The report review function performed by TLs, and Division and Headquarters management is essential to the overall quality of an audit report.

1. **Division Review.** Effective supervisory review by the TL and field management is essential to the overall quality of an audit report. Early supervisory participation in the audit planning process helps to focus and sharpen the audit objective and to report on those objectives. Generally, the supervisor can provide a broader perspective on such matters as the reasonableness of the objective in view of OA policies and practices and the anticipated reaction to the report by various auditees. As the audit progresses, supervisory input may help determine the type of report to be issued and assist in identifying additional data needed to substantiate and refine the findings or to sharpen recommendations. A draft report review methodology checklist is available within TeamMate TeamStores (See "Reference Documents" in the Audit Template cabinet) to assist auditors in reviewing reports prior to sending to the AIG and to the DIGAI as determined by the AIG for review.
2. **AIG and DIGAI Review.** All reports are to be forwarded to the respective AIG and subsequently to the DIGAI, as determined by the AIG, for review prior to issuance. The purpose of this review is to assure (1) quality reports; (2) continuity and consistency of reports and recommendations; and, (3) compliance with OAI and OIG reporting policies.
3. **Documenting Changes Made by Reviewers.** When report drafts are significantly changed as a result of reviews, the reasons for such changes must be documented in the TeamMate project or audit file within the applicable AS report folder. For example, if the Scope and Methodology Appendix of a Blue Cover report is changed by the AIG or DIGAI reviewers to more closely adhere to GAGAS, a notation to that effect should be included in the project or audit file. This process assures that audit team documented the rationale for significant changes between the initial draft and the final issued report.

**D. CROSS-INDEXING REPORTS**

The AIC will follow specific steps in preparing a report for referencing. Workpaper and report cross-indexes are to be placed on reports by the person(s) who prepares the report. Procedural guidance on indexing draft reports in TeamMate is included in the TeamMate EWP Protocol. The AIC is responsible for assuring that all portions of the report have been properly cross-indexed (including Management and Auditor Comments in final reports). A workpaper cross-index will be repeated where there are one or more intervening cross-indexes. Cross-indexes can normally be directed to a specific section or link within a workpaper (i.e., procedure step) through electronic indexing. If it is necessary to cross-index a statement (sentence or phrase) to more than one workpaper or to more than one location within a workpaper, the indexer may simply create additional electronic links as necessary.

All figures, amounts, dates, proper names, and titles appearing in the report must be supported by corroborative information in the workpapers. A referencer should not be expected to perform computations to determine how a reported figure was derived. For example, in support of a statement that "4 of the 7 (57 percent) reports did not have the required attachments," the cross-index may be referenced to entries such as: 3 reports had the required attachments and 4 reports did not have the required attachments. However, the referencer should not be made to add the "3" and "4" to get support for the "7." That calculation should be clearly reflected in the audit documentation. Likewise, the audit documentation should contain computations for "57 percent." Normally, calculations should be carried out to a greater degree of accuracy than the figure cited in the report; --e.g.,  $4 / 7 = 57.1$  percent (rounded) = 57 percent. In addition, a separate cross-index would be needed to support the criteria that required the attachments.

Whenever factual material is repeated in a draft report, it is desirable to cite other pages in the report for support rather than repeatedly citing the same supporting audit documentation. This situation may occur in the Information Memorandum in the report that summarizes information included elsewhere in the report. Citing other pages with the same information allows the referencer to carry forward the referencing mark on material already verified. It may also aid in identifying redundant statements. Auditors should avoid citing a large number of cross-indexes to support a single statement. If several cross-indexes are needed to support a statement, a separate summary should be prepared that ties together the various pieces of information needed to support a finding or conclusion. However, the summary must be cross-indexed with factual items traced to the source and computations verified. Procedural guidance for indexing and referencing in the TeamMate environment is maintained in the TeamMate EWP Protocol.

**E. REFERENCING**

The referencing process is an essential step in assuring overall OA report quality. For quality assurance purposes, both the report and Information Memorandum will be referenced prior to issuance of the *draft* report. All subsequent changes to the report must also be referenced. The AIG will make a determination as to whether the facts in the Information Memorandum are consistent with the report prior to issuance.

All referencing must be performed electronically in TeamMate. All audit reports will be independently referenced. Referencing will be performed by an audit staff member who is grade GS-12 or above. For Blue Cover reports or other reports with significant or

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controversial findings, an auditor at grade GS-13 or above should be selected as the referencer. The referencer must not have had any management responsibility for the audit nor have participated in the audit.

1. Purposes of Referencing. The purposes of referencing are to verify the accuracy of all facts stated in the report; to determine whether the audit documentation adequately supports the findings, conclusions and recommendations; and, to review the soundness and clarity of the report's presentation. Referencing does not relieve supervisors of their responsibilities for reviewing audit documentation or determining whether the report complies with all prescribed reporting policies and requirements. The referencer represents OAI management designated with responsibility for signing the final report. The referencer, although not responsible for the report itself, is responsible for determining that every figure and statement of fact is supported by satisfactory evidence in the audit documentation and all amounts are mathematically correct. This includes:
  - Checking each figure and statement of fact for accuracy within the report and to the supporting audit documentation;
  - Independently verifying the accuracy of each total, percent, and mathematical calculation in the report; and,
  - Determining whether the report findings, conclusions, recommendations, and auditor opinions are reasonable, logical and clearly presented based on the facts and analysis in the supporting audit documentation.
2. Referencing Documentation. The referenced report and all associated referencing comments must be retained in the TeamMate project or audit file. The referencer should refer to the TeamMate EWP Protocol for authorized referencing techniques. See TeamMate TeamStores "Reference Documents" cabinet for an example of an indexed and referenced draft report page in TeamMate.
3. Referencing Procedures. Referencing consists of three distinct phases. These are: (1) general familiarization with the report to be referenced and the underlying support; (2) detailed referencing; and, (3) resolution and disposition of the comments raised during the referencing process.
  - a. General Familiarization. The referencer should first read the report to make sure they understand the message being conveyed (clear, concise, and logical). Then the underlying source material should be scanned to obtain a general understanding of the organization of the audit documentation. The general familiarization phase provides referencers with the opportunity to identify any restrictions that will affect the referencing process and will necessarily qualify their work. The referencer should note these restrictions. However, any restrictions noted must be resolved before the referencing is complete.
  - b. Detailed Referencing. During the detailed referencing phase, the referencer checks every fact, figure, date, title, etc., in the written product to the underlying support to determine its accuracy and to assure that it is consistently used. Important items of information in the report such as--contract numbers,



quotations, dollar amounts, interpretation of contract terms, paraphrasing of policy, law, or regulation, etc.--must be checked to copies of the original source in the audit documentation. The referencer's review is independent and based on the referencer's own knowledge and logic. The referencer should question the adequacy of support included in the audit documentation when warranted regardless of whether the documentation has already had supervisory review. If the opinions, conclusions, and recommendations are not consistent with the factual material examined, the referencer should make a referencer note. Lead schedules and summaries may be used as support if the information on them has been cross-indexed, traced, and verified to the original source. The referencer should trace an adequate number of selected items to the source documents to assure the factual accuracy of information. To the extent that the referencer tests audit summaries and lead schedules, they must "tick" off that information the same way they do for the report being referenced. Basic guidelines for the referencer include the following:

- The referencer must denote acceptance that each passage of the report is adequately supported by inserting a defined referencing tick mark or symbol at end of each passage (See TeamMate EWP Protocol for guidance on electronic tick marks.). Every figure, date, proper name, title, address, and each word of a quotation will be referenced by inserting a defined symbol directly to the right of each instance. Further, subsequent text added into the draft report must similarly be referenced and marked. This includes changes made as the result of the referencer's comments.
- All computations should be checked by the referencer and marked to indicate that the computation has been independently verified.
- The referencer should record all referencer notes, comments, points, questions and suggestions using a method authorized in the TeamMate EWP Protocol.
- The referencer should verify that adequate support is contained in the audit documentation for all reported facts. The referencer should read each item cited as support to see if there are any conditions or qualifications that would affect the validity of the audit documentation. All references must be to the audit documentation in TeamMate that is hyperlinked to any supporting source documents. When support for a reported fact is not located in the cited audit documentation, the referencer should immediately write a referencer note and continue with the remainder of his/her review.
- The referencer should not normally spend time searching through the TeamMate audit file if a cited document does not provide the needed support. However, if the referencer becomes aware that

an uncited document may contain the needed information, the referencer should note this in their referencer comment (e.g., their note may state that a particular fact is not supported by the cited document and identify the specific document that may contain the needed information).

- When referencing classified material, referencing comments should also be classified as appropriate for proper security.

c. Referencing Computer-Generated Data. In referencing computer-generated data, the referencer has two major considerations: (1) how far to go in referencing computer programs written by OIG staff; and, (2) the extent to which the reliability of computer-generated data should be assessed. The use of computers and computer programs does not lessen the referencer's responsibilities. The following standard referencing procedures will generally apply:

- An audit trail must be provided so that report data can be traced back to the supporting source data;
- Audit documentation should fully support the procedures, computer programs and micro coding;
- When applicable, electronic data should be included as part of the audit documentation and should be properly referenced; and,
- Referencers must assure that computer instructions developed by OIG staff and used on the assignment are fully documented and reviewed for appropriateness and accuracy.

d. Reliability Assessments. The audit staff must make a reliability assessment when computer-generated data or information is an integral part of the auditee's operations being audited, or computer products or outputs are to be used in a report or in support of a finding. (See Chapter 7) Reliability assessments may entail additional verification with computer-generated data or tests of reasonableness. The referencer's responsibility in this area is to verify that a reliability assessment was made or make sure that appropriate qualifying language is included in the Scope section of the report if a reliability assessment was not adequately made.

e. Other Referencer Considerations. The following additional factors should be considered by the referencer:

- If the audit or a significant portion thereof was not adequately performed or documented in the TeamMate project or audit file and the Scope section is not qualified, the referencer should prepare a referencer comment.
- Prior reports published by the OIG may be used as supporting documentation if that information is historical or not subject to change.

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- The referencer is responsible for assuring that all factual information is appropriately identified and supported. Any information identified as an "opinion" or "conclusion" should be checked to assure that it does not include any elements of fact that would require direct audit documentation support. Also, testimonial evidence must be identified as such. Likewise, all conclusions should be evaluated against factual material in the report to assure that "cold" readers would reach a similar conclusion based on the same facts.
  - Where material is supported only by interview evidence, the referencer should check to determine whether the support is adequate to make an unqualified statement. This would depend on the source of the information, the source's position, the source's probable knowledge of the subject, and confirmation by others. In some cases, the statement may have to be modified by "We were told" or "We were informed." Also, the referencer should watch for statements that may not be true, even if attributed to a source (i.e., is the source credible?). The OIG should not repeat potentially untrue statements, even if the statements are attributed to a source.
  - The referencer is responsible for suggesting editorial changes, such as grammar, punctuation, misspelled words, and choice of words, only to the extent that meanings need to be clarified in order to properly discharge the referencing duties. It is, however, within the referencer's duties to comment on OA standards and procedures, such as reporting formats, scope statements, internal controls, data reliability, and other requirements addressed in this Manual.
  - If the report contains any figures carried forward from a preceding report--e.g., a financial statement audit--such figures should be cross-indexed and referenced to the previous report to assure consistency. Differences must be explained in the report.
4. Resolution and Disposition of Referencer Comments. Once the detailed referencing has been completed, the audit staff must respond in TeamMate to each referencer comment, record the proposed disposition in a manner authorized by the TeamMate EWP Protocol, and advise the referencer that referencer comments have been addressed. The audit staff should clearly indicate agreement or disagreement with the referencer's comments. The referencer reviews the disposition made by the audit staff. If satisfied with the disposition, the referencer indicates approval by signing off in an authorized manner. The referencer must also tick the accepted line or item in the report. (See the sample indexed and referenced draft report in the TeamMate TeamStores "Reference Documents") If additional source material has been provided in response to a comment, the referencer must make sure the additional material is added to the TeamMate project or audit file and must indicate in the referencer

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comment that these sources have been added. If the disposition involves a revision to the report, the referencer must reference the report changes and, when satisfied, place a tick mark on the revised material.

Frequently, the referencer and audit staff will discuss the comments raised and disposition. Oral explanations by the audit staff often provide clarification for the referencer. The referencer must keep in mind, however, that all facts must be supported by written material in the TeamMate project or audit file. Therefore, oral explanations alone will not suffice. The fact that an explanation was needed may indicate the need to clarify the report or to enhance the supporting audit documentation. If the referencer and the audit staff cannot agree on the disposition of a comment, the audit staff will record a brief explanation of the reason for disagreeing with the comment, pointing out the differences that generated the disagreement. The "open" referencer comments will be brought to the attention of the AD, who will meet with the referencer and the audit staff to resolve the matter. Only the DD or higher-level official can close a point without satisfying the referencer. However, referencers have the right to appeal to the AIG if they disagree with the DD's decision because the referencer represents the AIG. It is also the DD's responsibility to inform the AIG about all referencer comments that are considered by the referencer to be unresolved.

For further direction on indexing and referencing in the TeamMate environment, see the TeamMate EWP Protocol.

### **F. REVISIONS TO REFERENCED REPORTS**

All changes made to a report after the initial referencing, including auditee management's comments added to the final report, must also be referenced. The only exceptions are minor spelling and grammatical corrections. New material added or changes made to the report must be cross-indexed to the supporting audit documentation before being reviewed by the referencer. All cross-indexing supporting new material or changes, as well as the related referencer marks, should be in the same color as was used during the first referencing. In referencing the changes, the referencer must determine whether the changes affect other previously referenced sections of the report. The unchanged material in a revised report must be cross-indexed to the prior version of the referenced report to provide an audit trail. To accomplish this, a statement can be made on the first page of the revised report explaining that any section not highlighted or otherwise marked to show that material was added or changed remains the same and should be referenced to the previous version of the report. In addition to referencing all changes to the report, the referencer must verify that the unchanged portions of the revised report have not changed.

On occasion, reports can undergo several revisions. In these cases, to assure a quality report, for clarity, and to ensure that all changes and the impact have been referenced, it is suggested that the final version of the report be completely cross-indexed and referenced. Prior to issuance of the final audit report, the referencer completes the certification document found in the TeamMate EWP Library, or project or audit file.

**G. DISCLOSING CLASSIFIED, SENSITIVE AND OOU INFORMATION**

The Department has guidance on the public release of information. For this reason, all auditors must be aware of what kind of information is used to prepare audit documentation and reports. As a reminder, all audit work that deals with classified information must be run through a classifier for review before drafts or final reports can be issued. Keep in mind that it is possible that information taken from unclassified documents can, when combined, become classified. A checklist, *Checklist - Potentially Classified Information*, has been developed to help you make a determination about what may be classified and may need closer scrutiny. (See the TeamMate project or audit file, or TeamStores). This checklist should be completed and included as documentation in the audit documentations.

Another checklist, *Checklist - Potentially Sensitive Information*, has also been developed to aid in identifying information that is not classified but that should be protected because of sensitive governmental, commercial, or personal interests. Because of changes in the world security situation, the Department has increased its awareness and vigilance related to sensitive information. Many items previously considered to be publicly available have been removed from Departmental Web sites and are not available for general distribution. As such, much more of the information the OIG is called on to examine during audits and special reviews is considered sensitive. To ensure that such information is adequately protected, auditors should refer to the *Department's Manual for Identifying and Protecting Official Use Only Information*, Department Manual 471.3-1. Further, to determine whether audit documentation and/or reports should be marked "Official Use Only," the *Checklist - Potentially Sensitive Information*, available in the TeamMate project or audit file and TeamStores, should also be completed and included as part of audit documentation.

Once the checklist has been completed, if a draft report contains sensitive information, each DD will be responsible for determining whether there is a way to revise the report to eliminate the sensitive information. If the responsible AIG determines that the sensitive information is needed in the report, the AIG will work with the DD to determine how to proceed with the report.

Each AD is responsible for assuring that prior to the issuance of any draft report; the *Checklist – Potentially Classified Information*, *Checklist – Potentially Sensitive Information* and *Referencer Certification Document* have been completed in the TeamMate project or audit file. ADs will document this assurance by completing appropriate sections on the *Assistant Division Director Checklist* (See TeamMate project or audit file and TeamStores).

## **CHAPTER 9**

### **AUDIT RESOLUTION AND FOLLOW-UP**

#### **A. SCOPE OF CHAPTER**

The resolution and follow-up of audit recommendations are integral parts of auditing and have a direct bearing on its effectiveness. This chapter describes the OA policies and procedures for resolving audit recommendations and performing follow-up audit work.

#### **B. AUDIT RESOLUTION**

Audit resolution is critical to the success of the audit process. Audit resolution encompasses the efforts taken by the Department and the OA to address findings and reach agreement on the existence and causes of adverse conditions and the corrective actions needed. If the Department and the OA do not have a clear agreement on the corrective actions to be taken, the adverse conditions identified in the audit may continue. Generally, audit resolution occurs when the OA and the responsible managers of audited organizations and Department elements affected by audit findings (management) agree on the findings and an acceptable course of corrective action.

1. **Communicating Potential Findings and Recommendations.** Audit resolution starts while the audit is being performed. By keeping management informed about developing issues and adverse conditions, the auditor has taken the first step to resolving potential findings. The audit team should routinely communicate with management officials to ensure that they are aware of potential findings and have the opportunity to review the issues and consider possible corrective actions. Throughout the audit, OA auditors should solicit, consider, and respond to management's concerns and comments about potential findings and recommendations.
2. **Resolving Findings and Recommendations.** OA auditors should attempt to resolve all audit issues with management before the final report is issued. The audit will be considered to be resolved if management accepts the auditors' recommendations or the auditors accept management's proposed alternative actions. The OIG's draft report provides management with written findings and recommendations and solicits written comments from management. In addition, OA auditors will usually hold an exit conference with management to discuss the findings, recommendations, and management's response. The Department's policy and procedures for responding to a draft report are described in Department Order 221.3, *Establishment of Management Decisions on Office of Inspector General Reports*. According to the Order, management will provide written comments to the OIG within 15 working days of issuance of the draft OIG reports. Management is encouraged to limit those comments to no more than two pages. Comments should indicate whether management agrees that the findings are factual and accurately reported, and whether management concurs or non-concurs with the findings and recommendations. Concurrences will include a statement of actual or planned corrective actions to be taken and estimated completion dates. If management does not concur with the findings and recommendations in the audit report, it will explain why, present additional facts if necessary, and propose alternative corrective action.

3. Final Report Transmittal. If the audit has been resolved, the memorandum transmitting the final report will state that a management decision is not required. However, if management does not concur with the audit's recommendations, the memorandum transmitting the final report will identify the unresolved recommendations and state that a management decision is required.

4. Unresolved Issues. The Department's policies and procedures for recommendations for which a Management Decision is required are described in Department Order 221.3, *Establishment of Management Decisions on Office of Inspector General Reports*. According to Order 221.3, the Department's OCFO or the NNSA Office of Business Operations (as applicable) will submit the final management decision to the Secretary or a designee, or in the case of NNSA to the Administrator, for approval and finalization. The Order also provides a procedure for the OIG to review the management decision before it is finalized and request that major audit issues still unresolved after the management decision process go to the Departmental Internal Control and Audit Review Council (DICARC). Auditors should refer to the latest version of Order 221.3 for details of the current audit resolution process.

C. **TRACKING AND REVIEWING CORRECTIVE ACTIONS**

The Department tracks and reports on the status of corrective actions that were planned and taken in response to OIG audit reports. In addition, the OIG is required to comment quarterly on the status of corrective actions.

1. DARTS. Department Order 224.3, *Audit Resolution and Follow-Up Program*, authorized a formal follow-up system for audit and inspection reports issued by the OIG. This system, the Departmental Audit Report Tracking System (DARTS), is maintained by the Department's OCFO. After the OA and management have agreed upon the corrective actions to be taken, management's action plan documenting those actions will form the basis for tracking audit recommendations in DARTS and all follow-up reporting. The OA should require management and the Audit Liaison Team to track all recommendations with uncompleted corrective actions. The OIG's memorandum transmitting a final report will state whether the recommendations should be tracked in DARTS. At the end of each quarter, Department management updates in DARTS the status of corrective actions by comparing the status of actions on audit recommendations against the agreed upon action plan.

2. Commenting on DARTS. Department Order 224.3 requires the OIG to review quarterly the status of planned corrective actions as described in DARTS and to notify the CFO of concerns or disagreements with the status of corrective actions planned or taken. OPAQA coordinates the process for the OA. After the end of each quarter, OPAQA will notify the AIGs, DDs, ADs, and TLs concerning the audits for which they need to provide comments on the status of corrective actions. The responsible AIGs or DDs will ensure that corrective actions for each audit were reviewed and provide comments to the OPAQA. For each recommendation, the comments should indicate whether (1) the actions, as described by management in DARTS, are in conformance with the agreed upon action plan and acceptable, and (2) the recommendation can be closed in DARTS if management asserts that actions have been completed. The AIGs and DDs are not required to ascertain that management has actually performed the completed action or

that the completed action corrected the reported deficiency. Those determinations will be made during follow-up reviews at a later time.

OPAQA reviews the comments received from the AIGs and DDs and resolves any differences of opinion as required. OAPA inputs the OIG's quarterly comments into DARTS. After comments have been added to DARTS, OPAQA prepares a memorandum on the DARTS reports for signature by an AIG and transmittal to the Department's OCFO.

***D. FOLLOW-UP OF PRIOR AUDITS***

It is OA policy that recommendations contained in prior reports (IG or other) shall be followed up on when subsequent audits are performed. In addition, the OIG performs audits to determine whether corrective actions have been implemented.

1. Prior Audit Findings. Department management is primarily responsible for directing action and following-up on audit recommendations. However, GAGAS require auditors to follow up on findings and recommendations from previous audits that are relevant to current audits. For example, for performance audits, GAGAS require the auditor to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits that are significant within the context of the audit objectives. Likewise, for financial statement audits, GAGAS require auditors to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits that could have a material impact on the financial statements. When planning an audit, the auditor should ask management of the audited entity to identify previous audits that relate to the objectives of the audit and whether recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work and the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

2. Follow-up Audits. The OIG conducts follow-up audits especially of those matters of a critical or sensitive nature. Department Order 221.3 requires the OIG to conduct follow-up reviews of selected audit reports to verify that corrective actions have been completed, and are effective. If a follow-up audit of more than 10 days duration is required, a Planned Audit Profile shall be properly prepared and approved. Departmental Orders and OMB Circulars also require that the OIG perform periodic reviews of the Department's follow-up system to evaluate whether it is adequate and results in timely and proper resolution of findings and recommendations. The Germantown Audit Group in the Eastern Audits Division is responsible for periodically performing this review.



## **CHAPTER 10**

### **CONDUCTING THE PERFORMANCE AUDIT**

#### **A. SCOPE OF CHAPTER**

This chapter details policies and procedures to be followed in conducting and supervising performance audits. Although the guidance is geared specifically to performance audits, it has general applicability to all types of audits or engagements. Management Alerts are also discussed in this chapter.

#### **B. INITIATING AN AUDIT**

Specific steps required to start an audit include (1) ensuring that a Planned Audit Profile (Profile) has been submitted and approved; (2) ensuring that the necessary job-related tracking information exists in TeamMate; (3) assigning audit staff; (4) sending a "Letter of Notification" to the auditee; (5) ensuring that an audit program has been developed and approved for the assignment; and, (6) holding a formal entrance conference.

1. **Submitting Planned Audit Profiles.** With the exception of certain recurring audits described in Chapter 5, section C.1, assignments should not begin until a Profile has been submitted and approved by Headquarters. The format for preparing Profiles is illustrated in Chapter 5. Profiles are submitted to Headquarters within TeamRisk as part of the annual planning process. Profiles approved at the annual Executives Planning meeting are assigned a project number by OPAQA with notification to audit groups. When an audit is ready to start, the profile should be reviewed by the responsible division to determine if updating is required.

2. **Audit Progress Tracking Responsibilities.** TeamMate is the primary management tool for tracking the progress of audits. Therefore, it is essential that information entered into the TeamMate EWP module is accurate and current. When profiles are approved, OPAQA is responsible for giving direction to the TeamMate Champion to establish the audit in TeamMate. At that point, staff can begin charging time to the job code. Each AIC or TL is responsible for entering all additional information into TeamMate about the audit. For example, after notice is received that an audit has been approved and established in TeamMate, the AIC should ensure that additional information required on the start and objective is present and accurate. The TeamMate EWP Protocol describes responsibilities for maintaining progress tracking throughout an audit.

3. **Assigning Staff.** AIGs/DDs are responsible for ensuring that an adequate number of staff with appropriate experience, skills, and knowledge for the job is assigned to each audit. When appropriate, because of geographical location, this responsibility can be delegated to an AD or TL.

For audits involving the review of general and application controls in computer-based systems, obtaining access to information already on a computer, standardized data collection techniques, or statistical sampling, the audit team should coordinate these activities in advance with TAG to ensure that the staff has adequate knowledge, skills, and abilities to utilize such techniques and follow approved practices. If staff with the necessary experience or skills is not available, the team should consider requesting, through their AD and DD, assistance from audit services

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contractors or consultants. See Chapter 7 for more detailed guidelines on computer-related audits and the use of quantitative techniques.

4. Notification Letter. AIGs/DDs are responsible for sending a "Letter of Notification" to an auditee (this responsibility may be delegated to an AD or TL). Normally, the notification letter is sent no later than 10 days before the entrance conference and the initiation of audit work. The letter should state the general purpose of the audit and the scope of planned work. See Exhibit A for a sample notification letter.

5. Audit Program. As one of their first tasks on an assignment, the AIC is responsible for ensuring that the survey or audit program has been developed and approved to address the specific audit objectives. Before auditors start fieldwork, the survey program must be approved by the TL and AD. Before auditors start work on the verification phase, the audit program must be approved by the TL and AD. These approvals must be documented in the TeamMate audit file.

a. Type of Audit Work Needed. In most cases, a survey is needed to determine the existence of potential findings followed by the verification phase to further develop and verify the findings. In other cases, potential findings may have already been identified and sufficient information exists for auditors to proceed directly into audit verification.

(1) Survey Work. A survey is intended to be a process for quickly gathering information, without detailed verification, on an auditee's programs, activities, and functions. This information is assembled and analyzed to determine if potential findings exist and to write detailed audit steps if necessary. Section D provides detailed procedures for performing survey work.

(2) Audit Verification. If the survey has identified potential adverse conditions and findings and the DD or AIG has approved the "Go" decision, the audit will continue to the verification phase. For some audits, auditors may be able to proceed directly to detailed verification steps where potential findings have already been identified and sufficient information exists for the auditors to determine the nature and extent of additional audit work needed to fully develop findings. Section E provides detailed procedures for performing audit verification work.

b. Audit Program Content. Audit programs will differ depending on the audit objective, the type of audit being conducted, and the materiality or significance of expected findings. However, audit programs for both survey and verification work should include the following information:

(1) Background. Information should be provided about the organization, program, activity or function to be audited. This information should include the purposes, goals, activities, or plans for the area or issue to be studied.

(2) Objective and Scope. The objective and scope of the audit must be clearly stated or described. The general objective or overall purpose of an audit usually relates to an activity's primary function or mission. More detailed sub-objectives are usually needed to describe specific areas that will be emphasized during the audit. The nature and scope of work planned in order to reach conclusions on the stated objectives should also be described.

(3) Methodology. The audit program should lay out suggested steps and procedures for developing and supporting all elements of a finding: condition, criteria,

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cause, and effect. Audit steps should be focused and require the auditor to determine the answer to a specific audit question.

(4) Definition of Terms. The audit program should define or explain any known unique terms used by the audited entity.

(5) Special Instructions or Responsibilities. The audit program should identify specific staff responsibilities for the audit, particularly if it involves work at multiple locations.

c. Survey Program. Prior to starting work, TLs and ADs are responsible for reviewing and approving survey programs and any subsequent changes to ensure that the planned scope and methodology will satisfy the stated audit objectives and will be performed in accordance with GAGAS and OA policies and procedures. A sample or pro forma survey program is shown in Exhibit B. This Exhibit shows the items that should be considered and included when the audit is structured in TeamMate. Actual programs generated by the TeamMate report function will differ in appearance from the Exhibit.

6. Entrance Conference. A formal entrance conference should be held for all audits. An entrance conference is the initial conference held at or near the beginning of the audit with the highest management level of the entity audited. The primary purposes of an entrance conference are to acquaint the auditee with audit objective and approach, obtain auditee management's suggestions for areas needing audit coverage or emphasis, and logistical information for conducting the audit such as points of contacts, space, and office working hours. During the conference, auditors are to inform attendees that, in accordance with Department Order 221.2A *Cooperation with the Office of Inspector General*, Department officials are required to provide prompt disclosure of information or data relating to the audit effort up until the time that the report is issued.

a. Planning for Conferences. The manner in which an entrance conference will be conducted, and the scope of the subject matter to be discussed, will be determined by the AIG, DD, or their designee. Arrangements for an entrance conference should be made soon after an audit is scheduled. Normally, the "Letter of Notification" should refer to the need to schedule an entrance conference, recommend a date and time for the conference, or refer to an entrance conference already scheduled. Detailed planning for the entrance conference depends on the objectives of the audit, familiarity of the auditee representatives with the OA mission and operations, position or level of auditee representatives attending, significance of the audit, and the known desires of Department officials.

b. DIGAI Representation. OA senior management is responsible for deciding the number and level of audit staff that will attend an entrance conference. The knowledge and roles of OA staff, level of representation by the organization being audited, relative significance of the organization, and other similar factors must be considered. The AIC and TL should normally attend the entrance conference. Representation by senior OA officials may be desirable at some entrance conferences, such as conferences involving Department Headquarters personnel, depending on the relative importance and scope of the audit, as well as relationships with and level of Department officials attending the conference.

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c. Conducting the Entrance Conference. The agenda for an entrance conference should be carefully tailored to the requirements of the specific audit and should consider the following:

- Opening remarks, including introduction of OA audit staff present;
- A brief overview of OA's mission and organization and types of audits performed;
- A description of the specific audit objective, scope, and methodology;
- Solicitation of management comments regarding significant aspects of the organization, operations and procedures, with particular emphasis on management initiatives underway such as major reorganization or significant changes in mission or problems affecting the auditee's operations such as funding restrictions or personnel shortages that could affect the audit;
- Explanation of the reporting procedures to be used;
- Designation by management of primary points of contact or liaison personnel during the audit; and,
- Advising auditee management about the availability of the AIC to apprise management of the progress of the audit and of the tentative audit conclusions being developed.

d. Record of Entrance Conference. The AIC or other designated person will prepare a memorandum summarizing the highlights of the entrance conference. This memorandum will be made part of the TeamMate audit file and includes the names and organizations of all persons attending the conference, any commitments or decisions made, and summarizes the conference results.

### **C. AUDIT TIMELINESS**

To ensure that audit reports are issued timely and are useful to management, all audits should be completed within specified time frames. In planning and conducting audits, the number of elapsed days should generally not exceed 365. Significant milestones include:

1. Entrance Conference. Although audit planning may begin well in advance of an entrance conference, this date should be used to mark the official start an audit. No more than 10 percent of total planned staff days should be expended before the entrance conference.

2. Survey Completion. At the EOS, usually 75-90 days from the entrance conference, the audit team will brief the AD. If the meeting results in a "No-Go" decision, the team will either prepare a letter report or a termination letter. For all "Go" decisions, the team will prepare an EOS document that will be sent to the DD and AIG for review and comment. The EOS document will include sufficient information to show that, at a minimum, the criteria was fully developed with concrete examples to demonstrate that an adverse condition exists. All other elements of a finding will either be actual or hypothetical (when not fully developed) and will also discuss the steps that the team plans to conduct during the verification phase of the audit. The EOS document should be presented in the format shown in Exhibit D and include the

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timeframes for completing the audit. The EOS document will be approved by Division management and/or the responsible AIG.

3. Coordination Draft. A coordination copy of the draft report should be shared with Department management officials to ensure that they are aware of findings, and have an opportunity to review the issues and consider possible corrective actions. Before an official draft report is issued for formal comment, consideration should be given during this period to Department management's unofficial comments and adjustments should be made, where warranted, to facts and content of the coordination copy of the draft report.

4. Issue Draft. A referenced official draft report will be issued upon completion of fieldwork to Department program management. See OAI report and editorial guidance for direction on draft reports.

5. Exit Conference. Department management will be contacted to schedule an exit conference. The exit conference should generally occur within 5 working days of providing management with a working copy final report, including management comments, approved by the responsible AIG. If management is unwilling to cooperate in scheduling an exit conference, inform the action official that the report will be issued, noting in it that management declined the opportunity to meet with us. There may be situations where management reviews the working copy of the final report and offers additional significant information. If this occurs, the AIGs or the DIGAI may decide to reissue the draft report and hold another exit conference. See E.5.c for further discussion of the formal exit conference.

6. Issue Final Report. Any additional comments received at the exit conference should be analyzed and incorporated into the final report, if needed. Final report information should be completed (i.e., auditee point of contact listing, final monetary impact statement, 10 key words, and listing of staff that worked on the audit) and the report distributed to the appropriate recipients.

7. Unusual Circumstances. For audits that involve rare, unusual circumstances, the AIGs may waive certain policy and procedural requirements in initiating and conducting an audit, developing audit findings, and processing the audit report. These unusual circumstances will not circumvent any auditing standards. The written waiver will fully support reasons for significant deviations and become part of the TeamMate audit file. A copy of the waiver will be provided to the DIGAI.

### **D. PERFORMING SURVEY WORK**

In most cases, the audit team will need to perform an audit survey in order to identify potential findings and to prepare detailed audit verification steps. Surveys are intended to be a process for gathering information on an auditee's programs, activities and functions for the purpose of identifying findings within the overall objective of the audit. Survey work should normally be completed within 75 to 90 days. A survey may not be needed on audits where a "Go" decision has already been made, such as financial statement audits, cost statement (e.g., SCIC) assessments, or audits required by statute, regulation, or due to special requests. In such cases, the engagement program should be designed to enable the auditors to proceed directly to detailed audit verification steps. Detailed procedures for performing survey work are provided below.

1. Initiating Work at Subordinate Activities. In addition to the formal entrance conference described in B.6, the AIC should arrange for a "kick-off" meeting at each subordinate

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activity level of the organization prior to commencing audit work in the area. The principal purposes of such a meeting are to:

- Introduce OA staff to responsible activity personnel;
- Explain the planned scope of work to be performed;
- Initiate discussions on significant aspects of the activity's operations;
- Explain how the results of audit work will be reported to the activity; and,
- If appropriate, request a briefing on activity operations and/or a tour of the activity.

2. Understanding the Surveyed Activity. A survey is intended to enable auditors to obtain information about the key systems and procedures used by an organization for managing its operations and financial activities and for evaluating and reporting its performance. Auditors should also obtain information about the size and scope of the auditee's activities as well as areas in which there may be internal control weaknesses, non-existent or poorly defined performance measures, uneconomical or inefficient operations, lack of effective goal achievement, or lack of compliance with laws and regulations. It is OA policy to include in the survey sufficient steps to evaluate the presence and quality of performance measures and reported accomplishments. The Department has strived to incorporate goals and performance measures in its management, operating, and facility contracts that comprise the bulk of the Department's work. Auditors should acquaint themselves with the goals and performance measures that have been established for the areas being surveyed. In addition, goals and performance measures have or are being developed at Department Headquarters to measure mission accomplishment. These goals and measures are passed down to field activities that are then required to report on individual progress in meeting the established goals. Auditors need to acquaint themselves with the Headquarters program goals and performance measures that impact the audited activity. In addition, the lack of such measures, poorly drafted measures, or inadequate data accumulation systems may represent the cause(s) of adverse conditions.

a. Survey Objective. The survey objective will normally be to gather and analyze data to determine if potential findings exist and to decide whether a detailed review of a specific area is warranted. To make this type of decision, the survey should consider significance of potential findings, audit resources needed to verify and develop the findings, and whether the audit will be applying scarce auditing resources where they will do the most good. Although a survey program may not contain all detailed audit steps, it should contain the same basic structure as the audit program. As an audit progresses, the program should be reviewed and refined, as appropriate, in order to update the objectives and to develop detailed verification steps.

b. Survey Methodologies. Common methods of obtaining evidence during a survey include the following:

(1) Physical Inspections. In most cases, on-site observations are indispensable in helping the auditor to gain a quick working knowledge of an organization's operations and environment.

(2) Discussions with Officials and Employees. Various levels of officials and employees within an organization should be contacted to obtain an understanding of

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their responsibilities and methods of operations. They should be specifically asked about areas that are troublesome or that concern them, even when they lack complete information.

(3) Interviews with Others. Auditors may find it useful to interview concerned or knowledgeable persons outside the organization to obtain indications of weaknesses and areas of concern.

(4) Use of Questionnaires. Because numerous interviews could be costly and time consuming, auditors may want to consider the use of questionnaires in selected instances.

(5) Reviews of Documentation. Auditors should obtain and review the same information that is available to management for its use. If expected information is not available, the auditor should ask how operations are controlled in the absence of that information. Areas normally worth pursuing include the following:

- Legislation, regulations, executive orders, court decisions, industry standards, and other criteria affecting the auditee's operations;
- Contracts and related contractual documents, mission or function statements, goals, performance measures, objectives, and expectations;
- Standard operating procedures and other written material that documents the auditee's normal operating procedures and critical internal controls;
- Reading files, chronological files, and organization minutes that document management's current activities and concerns;
- Management reports (e.g., budgets, operating statements, cost reports, exception reports, etc.) for making comparisons, highlighting variances, and understanding how the organization is managed;
- Prior studies and audit reports that may provide ideas on problem areas within the organization; and,
- Legislative histories, hearings, and proposed legislation that may identify potential problem areas.

(6) Transaction Testing. Tracing or "walking-through" a few specific work activities from beginning to end may provide useful insights into the organization's operations. However, such testing may be time consuming. Once a weakness is identified, tests to determine the significance or extent of a problem would normally be conducted as part of the audit steps in the verification phase.

(7) Flow Charts. Auditors may find it useful to obtain or prepare flow charts that graphically portray the flow of work and related management control structures.

c. Documenting Work Performed. Auditors are to ensure that the audit documentation contains sufficient data to support any judgments or conclusions to be made

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based on survey results. However, auditors are also expected to use their judgment in terminating work in areas where there appear to be strong internal controls, little risk of noncompliance, or limited opportunity to identify improved economies or efficiencies. More detailed requirements for audit documentation are provided in Chapter 6.

3. Identifying Potential Findings. During a survey, auditors must continually evaluate information obtained to ensure that they are accomplishing survey objectives, identifying potential findings, and determining the nature and extent of additional audit work needed. In general, this can be accomplished by identifying and developing as many attributes of a finding as possible, comparing the condition with the criteria, looking for reasons for the deviation between the condition and criteria, and assessing the potential significance of a finding.

4. Attributes of a Finding. It is important for auditors and supervisors to be consistent in how they evaluate survey information. Therefore, the support for potential findings should be developed in terms of the finding attributes. An analysis of the findings according to the following attributes will usually bring to light any basic problems in developing and organizing audit findings. It will also assist in determining whether all pertinent information was obtained. Auditors may either use the TeamMate exception feature or the format provided in Exhibit C for developing a finding.

a. Condition. By definition, a condition ("what is") differs from the criteria ("what should be"). It tells the reader what was found through factual statements. Most audit findings originate with comparisons of "what is" (condition) with "what should be" (criteria). When a difference is identified between the two, auditors have taken the first step in identifying an adverse condition. On the other hand, no difference between the condition and the criteria (no adverse condition) could be a valid conclusion for the audit objective. Specific examples and concrete details concerning an adverse condition are needed in order to convince a skeptical manager. Emphasis should be placed on discussing accepted management practices and procedures that were either not employed or were not operating properly.

b. Criteria. Criteria are the standard for measuring performance or the goals to be achieved. Examples are laws, regulations, orders, directives, goals, mission objectives, policies, procedures, management principles, and good business practices.

c. Cause. Cause describes how or why the condition came about and is the reason for the difference between what is and what should be (why the condition happened). Each finding must include the underlying root causes of the conditions reported. Establishing cause and effect relationships is often the most difficult part of an audit, but is essential in order to identify the basic weakness that allowed a deviation to occur and to design a constructive recommendation. For example, the auditor should determine if the cause relates to (1) lack of procedures or management controls; (2) failure to follow or misinterpretation of established procedures or controls; (3) other reasons such as organizational conflicts or resource shortages. Speculative causes that cannot be supported by sufficient, appropriate evidence should not be reported.

d. Effect. Effect tells what resulted from the condition, or "so what," and its significance. Auditors must demonstrate whether an adverse condition found is an isolated example or widespread and the rate or frequency of occurrence. The attention that a finding gets depends largely on its significance, as judged by effect. Where possible, the effect should be expressed in quantitative terms (dollars, units of production, resources, etc.) Examples include



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unnecessary expenditures, duplication of effort, and use of funds that could be better spent. Intangible effects, such as lowered morale, may also be significant. However, if the actual effect cannot be determined, comments should be made on the potential effect.

e. Recommendation. Recommendations describe the actions that should be taken to resolve an adverse condition and should include the timeframe and the responsible party or parties. Recommendations in all audit reports should address the underlying root causes of the adverse condition. Also, recommendations should logically flow from the causes identified in the finding. Each cause should be addressed in one or more recommendations. Recommendations may also address needed action such as recovering unallowable costs.

5. Coordinating with Investigations and Inspections. Auditors are required to coordinate with the Office of Investigations and, within OAI, the Office of Inspections, through the DPAQA, at the start of the audit, the completion of the survey, as well as at the end of the audit (see Chapter 4 for coordinating procedures).

6. Reporting Survey Results. At the completion of a survey, the auditor should have gained enough knowledge to clearly identify important issues and problem areas and to decide if and where further audit work is needed. When in-depth work still remains to be done, the auditor should have an idea of what he or she expects to report. Enough information should also have been gathered to allow a detailed audit program to be prepared for conducting audit verification work.

a. Survey Summaries. Generally, formal survey reports will not be required on each survey. However, the AIC is responsible for ensuring that survey work has been appropriately documented, summarized, and cross-indexed in accordance with the procedures provided in Chapter 6 on audit documentation support.

b. End of Survey. At the completion of the survey, the audit team should have sufficient information to support a decision to either (1) terminate fieldwork and report on information already obtained; or, (2) justify the investment of additional resources in order to develop potential findings. The results of this decision will be reflected in an EOS document. If a condition has been developed and the audit is to continue, the EOS document should describe the audit objective (revised if necessary); and describe the adverse condition, including concrete examples, and the other elements of the finding (either known or a hypothesis). The EOS document should also indicate a current planned completion date and the total number of staff days that will be required for the audit. When the EOS document has been approved by the AIG, an EOS milestone date should be entered in TeamMate to show that the audit has progressed to the verification phase.

(1) Audit Program. As a result of survey work, a detailed audit program should be prepared that provides the detailed steps for additional audit work that needs to be done to develop and verify a finding or otherwise finalize an audit. The audit program must be generated in EWP, and reviewed and approved by the TL and AD before the verification work begins.

(2) Refining the Audit Objective. The objective in the EOS document need not be precisely the same as the one identified in the Profile. Work performed during the survey may have resulted in a refinement of the objective. Differences, however, must be updated in the verification audit program, clearly explained and justified in the EOS document,

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approved by the AIG, and conveyed to the auditee. Any change in objective should be entered in the job file for audit progress tracking purposes in accordance with the TeamMate EWP Protocol.

(3) Go/No-Go Decisions. The EOS document is initially approved by the AD and forwarded to the DD and AIG for review and approval.

(4) Responsibilities. As noted above, the AIG and DD will determine if an audit is to continue. The audit team will ensure that the actual EOS milestone date and revised milestone dates, as necessary, are reflected in TeamMate.

c. Audits Not Continuing to the Verification Stage. If the survey has not identified an adverse condition with a potential finding and a "No Go" decision is made, a letter report may be issued or the audit may be terminated. The responsible AIG and DD will decide whether issuing a letter report would be appropriate. The letter report would summarize the results of work conducted and the conclusions reached. See OAI report and editorial guidance on preparing a letter report. If sufficient audit work has not been performed to support a letter report, the audit should be terminated. Written notice of this decision will be provided to the auditee and other appropriate officials by the same level of OIG management that signed the Letter of Notification. In addition, the AIC (with the concurrence of the TL and the AD) is to prepare a memorandum for the record that summarizes the results of work conducted and explain why the audit was terminated. The AIC is responsible for ensuring that the job file is updated in TeamMate for audit tracking purposes. If a letter report is issued, the report date and required report information should be entered into the job file for audit tracking purposes in accordance with the TeamMate EWP Protocol. Also, if the audit has been terminated, the termination date, along with appropriate remarks, should be sent to [TeamMate@hq.doe.gov](mailto:TeamMate@hq.doe.gov) so the National TeamMate champions can appropriately update the project status for audit tracking purposes.

### **E. PERFORMING VERIFICATION WORK**

During the audit verification phase, the audit team is responsible for collecting, analyzing, interpreting, and documenting such information as necessary to accomplish the audit objectives and to support the audit results. During this phase, the audit team ensures that (1) the attributes of a finding are fully developed; (2) all audit assumptions have been tested and proved or discarded; (3) the TeamMate audit file contains sufficient evidence to support findings and conclusions; (4) the TeamMate audit file is reviewed by the AIC and other supervisors in a timely manner; (5) supervisory review notes are cleared; and, (6) initial management comments are obtained. In general, audits involving detailed verification steps will result in a written audit report.

1. Audit Timeframes. In planning and performing audit verification work, auditors and supervisors need to keep in mind that audits should generally not exceed 365 elapsed days.

2. Meet with Auditee. If survey work was conducted, the audit team should meet with the auditee to discuss survey results and the scope of additional planned audit work before proceeding with further fieldwork. If no survey work was conducted, then the formal entrance conference will satisfy this requirement. If the audit objective was refined, refocused or restated in the EOS document and was, therefore, different from the initial survey objective, the audit team should inform management of the revised objective at this time.

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3. Conduct Detailed Verification Steps. Planned audit steps need to be translated into tasks or work segments that can be assigned to and carried out by individual staff members. As test and verification procedures are conducted, the audit team must ensure that: evidence obtained is sufficient, appropriate and reliable; findings and conclusions are based on an objective evaluation of all pertinent facts; and, the audit has been conducted in accordance with GAGAS and OA policies and procedures.

a. Execute Audit Program. Each audit is to be conducted in accordance with an approved audit program. (See Section B and the TeamMate EWP Protocol for further guidance on creating audit programs.) The audit program should serve as a guide for ensuring that the audit is performed in an efficient and effective manner. Audit programs are to be followed, unless significant deviations are justified by the AIC and authorized by the same supervisory levels that approved the original audit program. This requirement also applies to work planned, but not completed. However, auditors should not blindly follow an audit program if the prescribed objective and audit steps are not resulting in reportable findings or do not otherwise seem to be compatible with actual audit findings. Instead, auditors are responsible for using their own initiative to suggest eliminating, refining, or adding audit steps to more effectively and efficiently meet the audit objectives.

(1) Using Data from Computer-based Systems. Auditors are responsible for following the guidance in Chapter 7 to ensure the reliability of data obtained from computer-based systems.

(2) Using Advanced Audit Techniques. If computer-assisted, statistical sampling, or other advanced audit techniques are used, auditors are responsible for following the guidance in Chapter 7.

(3) Internal Controls. As discussed in Chapter 4, Exhibit A and B, and Chapter 5, the need to assess internal controls and the focus of that assessment vary with audit objectives and the type of audit. However, the basic purpose for evaluating internal controls is to determine the extent to which existing controls can be relied on in planning and conducting audit verification steps. For internal control that is significant within the context of the audit objectives, the auditor should obtain an understanding; assess control design and implementation; obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls; and modify audit procedures based on the assessment of internal control.

(4) Fraud, Abuse, and Illegal Acts. Auditors are generally not responsible for investigating fraud or other illegal acts. However, in planning, auditors should assess the risk of fraud occurring that is significant in the context of the audit objectives. If factors or risks are identified that indicate fraud has or is likely to occur that is significant in the context of the audit objective, auditors should design procedures to provide reasonable assurance of detecting such fraud. If indications of possible illegal acts do come to their attention, the procedures established in Chapter 4 will be followed.

b. Document Work Performed. The AIC is responsible for ensuring that audit work is performed in accordance with the audit program and that audit documentation is obtained and prepared in accordance with the policies and procedures established in Chapter 6 and the current TeamMate EWP Protocol. The audit team should ensure that it has documented all major decisions and milestones for the audit.

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c. Analyze and Summarize Audit Evidence. As test and verification procedures are carried out, the audit team must ensure that the evidence obtained is sufficient, appropriate and reliable. The findings and conclusions must be based on an objective evaluation of all pertinent facts, and the results of this evaluation or analysis must be documented in the TeamMate audit file. Auditors must also document conformance with GAGAS and cite any standards that may not have been followed. In addition to addressing the specific audit objectives, particular attention should be paid to analyzing and summarizing the data needed to address other audit requirements. For example, the TeamMate audit file should contain summaries showing the auditors' analysis and evaluation of (1) internal controls; (2) compliance with laws and regulations, including indications or instances of illegal acts; and, (3) issues needing further study and consideration.

d. Coordinate with Investigations and Inspections. Auditors are required to coordinate with the Office of Investigations and, within OAI, the Office of Inspections, through the DPAQA, at the beginning of the survey, at the completion of the survey, and at the end of the audit. Where no survey is required, this coordination should be accomplished at the beginning and at the end of the audit as discussed in Chapter 4.

e. Audit Suspension. AIGs, DDs, or ADs may suspend an audit during the verification phase if audit work is going to be stopped for at least 5 work days. Examples of appropriate justification for suspending audit work include higher priority audit work or unavailability of auditor personnel, records, or auditee personnel. OPAQA should be notified when an audit needs to be suspended. An e-mail containing the effective date and justification of the suspension should be sent to [TeamMate@hq.doe.gov](mailto:TeamMate@hq.doe.gov) as soon as the suspension is known. A second e-mail should be sent to the same address with the end date of the suspension so tracking reports can be properly updated.

4. Develop Findings, Conclusions, and Recommendations. It is OA policy to develop the elements of a finding and obtain management comments as early as possible during an audit. Potential findings, conclusions and recommendations should be discussed with the auditee as the attributes of a finding are being developed and before fieldwork is completed. All findings identified in official draft and final reports should have corresponding "Issues" in the TeamMate audit project file, which are captured in the AS1 folder using the "Issues" feature. All elements of each finding should be fully defined with corroborating evidence, as applicable. See section D.4 for a discussion of finding attributes.

5. Discuss Findings with Auditee. It is OA policy to fully discuss an audit's findings, conclusions and recommendations with officials of the organizations or activities being audited and to provide them with ample opportunity to comment on the factual content and planned corrective actions. This should be done through periodic meetings with management, at local activity exit conferences, and at formal exit conferences.

a. Periodic Meetings with Management. Auditors are encouraged to have frequent communication with management during the audit. Informal meetings should be held with key personnel at the operating level to discuss audit conclusions, proposed findings, and recommendations. The AIC should provide the participants an opportunity to read a copy of the audit conclusions and any draft findings in order to identify and correct any misstatements of fact. The AIC must make every effort to resolve any questions that arise about the accuracy of

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facts used to support conclusions drawn and potential findings. Potential recommendations, if determined at this time, should also be discussed.

b. Local Activity Exit Conferences. At the conclusion of audit fieldwork at each site or activity, the audit staff shall generally hold a conference with key personnel in the activity to discuss the audit results. At these discussions, the auditors should obtain management views on audit conclusions, findings, any potential monetary impact of the findings, and proposed recommendations, if recommendations are addressed to the activity.

c. Formal Exit Conference. An exit conference should be held at the completion of the audit to discuss the audit results and give management an opportunity to provide any additional comments on the audit report and any additional facts that could influence the manner in which the final audit report is presented. Thus, during the conference, auditors are to inquire of Department management whether any issues, events, or changes have occurred or arisen that have a direct bearing on the audit, since the official draft report was issued for comment. In doing so, auditors should emphasize that it is Department management's responsibility to disclose such matters, and that the OIG will determine the significance of such matters on audit work and the results to be reported. For example, if the Department officials become aware of such issues as grantee or contractor problems, loan defaults, or project management issues that may have a bearing on the audit, but arose after the completion of field work, then management has a responsibility to disclose the issue to auditors.

(1) Timing of Conference. A formal exit conference normally should be held after the draft report has been issued and management comments have been incorporated into the final report. The exit conference should generally occur within 5 working days of providing management with a working copy final report, including management comments, approved by the responsible AIG. See C.5 if management is unwilling to cooperate in scheduling an exit conference.

(2) Auditee Representation. The conference should be held with the highest management level of the entity audited. Normally, this will include the highest-level official to whom recommendations are directed or his or her designees.

(3) OA Attendees. OA representation will normally include the TL and the AIC, and may include the DD or AD. Other audit staff should attend if needed to address specific segments of the audit. Headquarters representation is required or desirable for some audits, e.g., at conferences involving high-level Departmental officials, major multi-location audits, or particularly complex, technical, or controversial audits.

(4) Record of Exit Conference. The AIC, TL, or designee will document the results of the exit conference by summarizing the highlights. This summary will be recorded in TeamMate and will include the names and organizations of all persons attending the conference, disclose any commitments or decisions made, and otherwise summarize the conference results. In the event that Department management decides to waive the exit conference, the auditor should instruct the Department official responsible for doing so to include in a written waiver (an email representation is acceptable) a statement that:

- Responses have been fully provided to all inquiries and all relevant data and records have been made available during the audit;

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- All matters have been disclosed to the auditor relating to the results to be reported; and,
- No events have occurred since the official draft report date that the auditor should be aware of relating to the effort and the results to be reported.

### ***F. MANAGEMENT ALERTS***

Management Alerts are used to inform Department managers and officials of matters requiring urgent attention. The Management Alert should be limited to exceptional cases of immediate urgency so as not to diminish the impact of this reporting mechanism.

Because a Management Alert is an interim communication to the Department, it will normally be followed up by an OA report. The usual method for subsequent reporting of the matters that generated the Management Alert will be an audit report. The subsequent report's Findings and Recommendations section will comment on the actions taken by management subsequent to the Management Alert. In some instances, changed circumstances or new facts submitted by management will affect the need for further reporting. As a minimum, however, a letter report will be issued closing the matter.

1. Transmittal Memoranda. Transmittal memoranda for Management Alerts are sent to Department officials responsible for the audited activity (See OAI report and editorial guidance).

2. Format. A Management Alert should include the (1) Background; (2) "Immediate Concern" (3) Recommendations; and, (4) Management Reaction. Because a Management Alert normally precedes the completion of all of the audit verification steps, it should be noted that specific problems are reported as "Immediate Concern" rather than as "audit findings."

**FORMAT FOR LETTER OF NOTIFICATION**  
(USE MEMORANDUM PAPER)

DATE: Month XX, XXXX

REPLY TO

ATTN OF: IG-XX (Project Number)

SUBJECT: (Subject matter to be reviewed.)

TO: Department Official (Official in charge of entity or activity to be audited.)

**For NNSA audits, the addressee is:**

Director, Office of Audit Coordination and Internal Affairs (NNSA)

The first paragraph should state that the Office of Audits (OA) intends to conduct a survey or an audit of the subject area. A designation of a cognizant organization (a program or field office or other organization) that OA anticipates will be primarily responsible for responding to the findings of the audit. The second paragraph states the general purpose of the audit.

A third paragraph should provide additional or more specific information about the planned survey or audit. For example, this paragraph could be used to inform the reader that the subject work is part of a larger OA effort. It should also refer to the need for an entrance conference, recommend a date and time for such a meeting, or refer to an entrance conference already scheduled.

The final paragraph should identify the contractor, if any, performing the survey or audit work, and the OA point of contact. The contact's telephone number should be listed, and the auditee should be invited to call if there are any questions concerning the survey or audit.

(Signature)

(NAME and TITLE),  
\_\_\_\_\_ Division  
Office of Inspector General

cc: (Departmental officials who should be made aware of the audit)  
(Specific Program officials who should be made aware of the audit)  
Director, Office of Financial Risk, Policy and Controls, CF-50  
Assistant Director, Office of Financial Risk, Policy and Controls, CF-50  
Audit Resolution Specialist, Office of Financial Risk, Policy and Controls, CF-50  
Team Leader, Office of Financial Risk, Policy and Controls, CF-50  
(Local) Audit Liaison

**There are no cc's for NNSA audits**

## SAMPLE SURVEY PROGRAM

This example survey program provides auditors with generic steps that are applicable to most Office of Audits (OA) surveys. It is intended to assist audit teams in accomplishing survey goals within established timeframes, and to develop the End of Survey document. The sample survey provides a basic framework, but should not be used as a complete checklist. Auditors must exercise professional judgment in determining which steps, if any, do not apply to the assignment. Additional steps relating to the specific audit objective must, of course, be added.

Audit programs serve as the basis for organizing the Audit in TeamMate and will differ in appearance from this sample. The sample is provided only to convey the items that should be covered when the audit is structured in TeamMate. Many of the basic steps have been incorporated into the various audit templates distributed with TeamMate.

### I. INTRODUCTION AND BACKGROUND

- A. Document the reasons for undertaking the audit.
- B. Provide information adequate to place the audit in context (program objectives, budget, staffing levels, organization charts, controversy, significance, etc.).

### II. AUDIT OBJECTIVE

The objective should be written clearly, understandably, and specifically. The auditor should normally lift the objectives directly from the approved Planned Audit Profile. A clearly stated audit objective becomes critical when designing audit steps to (1) test for program effectiveness; (2) test operations for economy and efficiency; (3) test for compliance with laws and regulations; (4) detect potentially illegal acts; and, (5) review internal controls.

### III. SCOPE

- A. Document the audit resources to be used in accomplishing audit objectives.
  1. Planned start of audit (use date you plan to hold the official entrance conference) and elapsed days allowed for survey work.
  2. Who is performing the audit?
    - a. OA staff (names and regional/audit offices).
    - b. Contract audit staff.
  3. Staff days available.
  4. Locations to be visited.
- B. Determine the time period, organizations, functions, accounts, documents, etc., to be covered in order to accomplish the audit objective. For example,
  - Transactions during Fiscal Year (FY) 20XX to be randomly tested;
  - Audit work to be conducted at all procurement offices that process more than 100 contracts per year or contracts with a combined value greater than \$100 million;
  - Field locations to be visited due to major restructuring as a result of shifting programmatic priorities; or,



- Organizations outside the Department of Energy, such as regulatory agencies or other stakeholders that are involved in or are affected by Departmental programs, to obtain views of program effectiveness.

#### IV. AUDIT STEPS/METHODOLOGY

The following audit steps should be tailored to the specific audit objective, and additional audit steps added as needed.

##### A. Background.

1. Determine the program's objectives and the auditee's activities and functions relevant to the audit objective.
2. Determine the auditee's organizational structure, through up-to-date organization charts, discussions, etc.
3. Determine how relevant activities and systems interact and operate using outlines, flowcharts, transactions flows, etc.
4. Identify key personnel.
5. Determine the missions, functions, duties, etc., for each organizational element being audited.
6. Determine the major databases maintained, recurring reports, and any special reports issued during the timeframe being reviewed. Determine the primary users of these databases, the recipients of the reports, and the expected use of and reliance on the reports.
7. Determine the budget of the major programs supported by the auditee, as well as information on the number, recipient, dollar value, function, duration, location, and type of contracts awarded or managed, and total value of contract expenditures.
8. Determine the applicable performance measures and standards established by management and/or by the operating contract.
9. Determine the structure of the contract award fees connected with achievement of the performance goals.
10. Determine the internal standard operating procedures used by the auditee.
11. Determine what areas of recent management emphasis or new initiatives are expected to improve operations.
12. Determine whether any external constraints or limitations affect the auditee's operations.

##### B. Audit and Internal Review Follow-up.

1. Determine whether any on-going or recently completed audits (last 5 years) or other studies performed by the following groups are related to the audit objective:

- a. Government Accountability Office (GAO).
  - b. Office of Inspector General (i.e., Audits, Inspections and Investigations).
  - c. Internal Auditors.
  - d. Federal Managers Financial Integrity Act Internal Control Review Teams.
  - e. Other audit/review groups (Defense Contract Audit Agency, State/local, etc.).
2. Follow up on specific audit recommendations and determine the status of corrective actions.
- C. Criteria. Determine and document which provisions of laws, regulations, or other criteria are applicable to the auditee and relevant to the audit objectives.
1. Laws, statutes, U.S. Codes, Comptroller General decisions, etc.
  2. Office of Management and Budget Circulars, Federal Acquisition Regulations, and other regulations.
  3. Departmental Directives
  4. Other standards and guidelines [e.g., American Institute of Certified Public Accountants' Statements on Auditing Standards (SAS), etc.]
  5. Performance measures and standards established by management and/or required by the operating contract.
- D. Condition. Design specific audit steps necessary to develop an informed opinion about how the program or activity is functioning as it pertains to the audit objective. At a minimum, survey work should include the following:
1. Compliance with Applicable Laws and Regulations. (Also see SAS 54 and 117. Detailed guidance is also contained in the GAO publication "Assessing Compliance with Applicable Laws and Regulations.")
    - a. Determine how the applicable laws and regulations apply and are implemented by officials of the audited entity to gain a better understanding of their potential significance to the audit objective.
    - b. Design steps and procedures to test compliance to reasonably assure detection of intentional and non-intentional instances of noncompliance that are material or significant to the audit objective.
      - Determine potential characteristics for this audit and the extent of work required to identify those characteristics.
      - Prepare a workpaper describing any work performed and characteristics of illegal acts noted during the audit. (If any such acts are noted, see Chapter 4 of this Manual.)

2. Internal Controls. (Also see Chapter 4, Exhibit A of this Manual and SAS 109. Detailed guidance is also contained in the GAO publications "Assessing Internal Controls in Performance Audits" and "Assessing Compliance with Applicable Laws and Regulations.")
- a. Determine how the auditee's control environment is relevant to meeting the audit objective. In particular, assess:
    - Management's philosophy and operating style.
    - The auditee's methods of assigning authority and responsibility.
    - Management's control methods for monitoring and following up on performance, including internal auditing.
    - Personnel policies and practices.
    - Any external influences that may have a bearing on internal controls.
  - b. Determine how any portion of the auditee's accounting system is relevant to the audit objectives. In particular, assess:
    - The effectiveness of the accounting system.
    - Relevant activities and systems. Document using outlines, flowcharts, transactions flows, etc.
    - The role of key personnel.
  - c. Determine how the auditee's control procedures affect the activities and functions that are relevant to the audit objective. General standards for internal controls require (1) reasonable assurance that system objectives will be accomplished; (2) a supportive attitude by managers and employees towards internal controls; (3) competent personnel to accomplish assigned duties; (4) identification and development of control objectives; and, (5) efficient and effective control techniques for accomplishing the internal control objectives. Also, where relevant, determine the adequacy of controls for the following specific standards:
    - Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
    - Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.
    - Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

- Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
  - Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
  - Access to and Accountability for Resources. Access to resources and records is to be limited to authorized personnel, and accountability for the custody and use of resources is to be assigned and maintained.
3. Performance Measures and Standards.
- a. Determine performance measures and standards required by management and/or by the operating contract. If none exist or measures and standards are inadequate, this may indicate a lack of criteria as a potential cause of the negative condition(s).
  - b. Determine how the performance of the program or activity is measured against performance goals and standards.
  - c. Determine how reasonable performance goals and standards are by comparing them against existing external benchmarks (e.g., those of comparable industry and government organizations).
  - d. Determine if performance goals and standards are readily measurable and provide a meaningful picture of desired results.
  - e. Determine if the goals and standards properly identify objectives, measures, and expectations as follows:
    - Performance Objective: a statement of desired results for an organization, such as "Remove all low-level waste at site X by the end of FY 20XX."
    - Performance Measure: a quantitative or qualitative method or characteristic for describing performance, such as "Number of drums of low-level waste removed by a specific time."
    - Performance Expectation: the desired condition or target level of performance for each measure, such as "Remove 10,000 drums of low-level waste by the end of FY 20XX."
  - f. Design and conduct limited tests of performance.
  - g. Compare results of performance tests with goals and standards. If performance achieved is below the required measures or standards, determine the reason(s) for the deficiencies.
  - h. Determine financial awards and penalties associated with the performance measures and standards:

- Assess the reasonableness of the awards and penalties, using benchmarking data from industry and government organizations for comparison whenever feasible.
  - Determine if the awards and/or penalties are being correctly applied based on actual contractor performance.
  - Assess the reasonableness and application of awards to contractors and if the Department is making awards to contractors only after certifying the proposed cost reductions have actually occurred.
- E. Risk Assessment (Including Fraud Risk).
1. In performing the above steps, you should reach conclusions as to the risk that: (1) noncompliance with laws and regulations significant to the audit objective may have occurred, and was not prevented or detected by the internal controls; and/or, (2) that the program or activity is not performing according to expectations in terms of program results or the economy and efficiency of operations. Document this assessment in the workpapers.
  2. Use the risk assessment as the basis for designing detailed audit steps to achieve the objectives. Greater inherent and control risk generally requires increased testing. (See Chapter 4, Chapter 4, Exhibit A, and Chapter 5 of this Manual)
- F. Cause. Where the risk of noncompliance with laws and regulations is assessed as significant, and/or there is a significant variance between actual performance and the goals and standards, the auditor should draw on the results of testing and assessments made in Section D above to design additional audit steps for the verification phase that will identify the underlying cause (s) for noncompliance or poor performance as required by the audit objective.
- G. Effect. The auditor should identify the potential effect of noncompliance and/or poor performance through discussions with program officials and others knowledgeable of the program or activity. Detailed audit steps should also be designed for the verification phase to document the effect.
- H. Assess Data Reliability. [See also Chapter 7 of this Manual.]
1. Determine whether computer-processed data are an important or integral part of the audit and whether the data's reliability is crucial to accomplishing the audit objective. If not, document the rationale in the workpapers and proceed with the next section of the survey program.
  2. If computer-processed data are important or integral, and if the data reliability is crucial to accomplishing the audit objective, reliability must be assessed. Depending upon whether general and application controls have been reviewed, a limited review of pertinent controls may be needed.
  3. Guidance for performing a limited review is found in the GAO publication "Assessing the Reliability of Computer-Processed Data." Based on this

guidance, design appropriate review steps to assess the reliability of the computer-processed data. Document all steps and conclusions in the workpapers.

I. Special Instructions.

1. Determine specific staff responsibilities.
2. Obtain agreement from assist regions as to work to be performed, summary due dates, etc.
3. Other special instructions.

V. APPROVAL

The audit program, prior to starting audit work, should be reviewed and approved by the Team Leader and Assistant Director and documented in the workpapers.

**WORKSHEET FOR DEVELOPING A FINDING**

- A. Potential Finding. (The specific problem that indicates a need for action.)
- B. Brief Statements of Finding Attributes.
1. Condition. (What is--i.e., statements of fact.)
  2. Criteria. (What should be--the goals to be achieved.)
  3. Cause. (Why it happened--the explanation for the condition and the effect.)
  4. Effect. (The difference between what is and what should be, and its significance.)
- C. Discussion. (Summarize argument supporting the finding and give specific examples. Normally, this section provides additional detail about how conclusions were reached by "generalizing" about a number of related specifics or details.)
- D. Recommendation(s). (Describe what actions we want taken, when, and by which manager(s). In general, these are tied to the cause).

**END OF SURVEY DOCUMENT EXAMPLE****Survey of Recovery of Highly Enriched Uranium Provided to Foreign Countries  
Audit No. AXXRLXXX****End of Survey Document****I. Objective**

The objective of the survey was to determine whether the Department of Energy's (Department or DOE) program is maximizing recovery of highly enriched uranium (HEU).

**II. Go/No-Go Decision**

We recommend a "Go" decision to continue developing findings related to potential adverse conditions identified to date.

**III. Background**

As part of its 1950s-era Atoms for Peace program, the United States provided nuclear technology to foreign nations for peaceful applications in exchange for the promise to forego development of nuclear weapons. The program provided foreign countries with research reactor technology and HEU needed to fuel civilian nuclear reactors. Initially, the U.S. leased HEU to foreign countries with the explicit provision that the spent fuel be returned for treatment and disposal in the U.S. preventing its use in a weapons program. In 1964, the U.S. changed its policy and began selling HEU materials to foreign countries without requiring the return of spent fuel.

In May 1996, in an effort to reduce the threat of nuclear weapons proliferation, the Department of Energy initiated a program to recover foreign research reactor spent fuel containing HEU produced in the U.S. Based on the stated criteria, the program addressed only about 30 percent of the U.S.-produced HEU, which had been provided to foreign countries.

The program, now known as the Foreign Research Reactor Spent Nuclear Fuel Acceptance Program (Acceptance Program), is funded primarily by foreign nations that possess HEU originally produced in the U.S.

**Criteria**

- National Energy Policy Act of XXXX.
- National Defense Authorization Act of XXXX.
- Office of Environmental Management's (EM) *Top-to-Bottom Review*, February XXXX.



**IV. Potential Audit Findings:****Condition** (Must have examples)

As of August 20XX, the Department was likely to recover only about half of the approximately 5,200 kilograms of HEU covered by the Acceptance Program. Moreover, there was no effort to recover an additional 12,300 kilograms of HEU dispersed to foreign countries which was not included in the Acceptance Program.

- In January 19XX, the Nuclear Regulatory Commission reported that 51 countries possessed a total of about 17,500 kilograms of U.S.-produced HEU materials.
- The Acceptance Program was designed to recover HEU contained in target materials and foreign research reactor SNF – about 5,200 kilograms.
  - a. As of October 20XX, the Department reported that 22 countries had returned about 1,100 kilograms.
  - b. Based on country-by-country estimates, we concluded that the Department is likely to recover only about one half of the 5,200 kilograms covered by the program.
- Substantial quantities of U.S.-produced HEU in foreign countries are not addressed by the Acceptance Program.
  - a. Fuel used in fast reactors and other special-purpose reactors is, by definition, excluded from the program.
  - b. No program currently exists to address and recover the remaining 12,300 kilograms of HEU.
  - c. All of the HEU – not just the portion covered by the Acceptance Program – represents a security concern to the United States.
- The Department, under a separate program administered by the National Nuclear Security Administration (NNSA), is funding recovery of HEU produced and exported by Russia to 15 different countries. In fact, in one country, the Department is paying to recover Russian-produced, but not U.S.-produced HEU.

**Cause**

**Hypothesis:** We believe that the effectiveness of the recovery efforts was constrained because:

- Acceptance Program participation was voluntary. Further, many countries viewed the program as costly or disruptive.

To prove this hypothesis, we plan to focus audit work during verification on determining:

- 1) How many countries the Department expects to fully participate in the program, including the basis for this expectation.
  - 2) Reasons why the countries are reluctant to participate.
  - 3) Steps the Department is taking or can take to encourage participation.
  - 4) Status of measures to encourage participation.
- Responsibility for recovery efforts is not properly placed in the Department. As a result, sufficient emphasis and priority are not given to recovery efforts.

To prove this hypothesis, we plan to focus audit work during verification on determining:

- 1) The rationale for placing program responsibility with EM.
- 2) What priority EM has placed on the program as determined by:
  - a) Performance measures established by EM to increase recovery of HEU.
  - b) Efforts by EM to outreach to foreign countries to participate in the program.
  - c) Efforts by EM to use other DOE and other government agencies to increase foreign country participation.
  - d) Status of EM plans, including strategic plans, to recover HEU from foreign countries.
  - e) Comparison of EM efforts to increase foreign government participation with other DOE nonproliferation efforts by NNSA.
  - f) Resources dedicated by EM to recovery efforts.
  - g) Priority given by EM to obtaining greater foreign government participation based on the risk posed by different countries.
- 3) Does NNSA have greater capability than EM to manage HEU recovery (i.e., does NNSA have the existing infrastructure and skills mix to negotiate greater foreign government participation)?

### **Effect**

At the time of our audit, large quantities of U.S.-produced HEU were out of U.S. control. The Department's success in recovering the HEU is a critical component of the effort to prevent diversion of the material for use in nuclear weapons.

**Hypothesis:** If the Department is unable to recover a more significant percentage of HEU produced in the U.S. and dispersed to other countries, there may be a greater risk that some of these materials will be diverted – by groups or governments hostile to the U.S. – for use in nuclear weapons.

During the verification phase, we plan to focus audit effort on determining:



Team Leader

Reviewed By: \_\_\_\_\_  
Name Date  
Assistant Director

Go / No Go: \_\_\_\_\_  
Name Date  
Director

Go / No Go: \_\_\_\_\_  
Name Date  
Assistant Inspector General

## **CHAPTER 11**

### **ISSUANCE AND DISTRIBUTION OF PERFORMANCE AUDIT REPORTS**

#### **A. SCOPE OF CHAPTER**

This chapter details the procedures for transmitting reports to management, issuing and distributing final audit reports. In general, this chapter applies to performance audits. However, the policies discussed have equal applicability to all other audits conducted by OA personnel unless specifically addressed otherwise in Chapters 12 and 13 that govern financial statement and contract audits, respectively.

#### **B. OBTAINING MANAGEMENT COMMENTS ON AUDIT REPORTS**

Generally, the responsible AIG should request written comments on the draft audit report when transmitting it to management. The request should task management to provide comments and concur or non-concur on the facts, conclusions, recommendations, and potential monetary benefits contained in the draft report. In most cases, the transmittal memorandum will request management to provide comments within 15 working days of issuance. OAI report guidance includes an example of the transmittal memorandum for a draft audit report. In addition, this manual describes how auditors should respond to management comments provided for draft audit reports. After evaluating the management comments and completing the Management Comments Matrix, appropriate revisions should be incorporated into a proposed final audit report. This proposed final audit report should be furnished to management prior to the exit conference.

#### **C. ISSUANCE OF AUDIT REPORTS**

The authority to issue audit reports depends upon the type and status of the report, as well as the sensitivity of the matters discussed in the report. To the maximum extent possible, the authority to issue final audit reports is decentralized to allow reports to be issued timely so that appropriate corrective action can be taken. The IG, however, reserves the authority to specifically designate any report for IG issuance. The issuing authority for various types of reports is discussed below.

1. **Blue Cover Reports.** The responsible AIG must approve all stages of a Blue Cover report before issuance. As a general rule, the DIGAI or the IG signs memoranda transmitting documents to an Assistant Secretary or above. The IG shall sign the transmittal memoranda for final reports directed to the Assistant Secretary level or higher. The AIGs shall issue and sign transmittal memoranda for draft reports directed to the Assistant Secretary level and any other reports the DIGAI may specifically designate. (See the Report Style Manual for a description of the various types of audit reports issued by OA.)
2. **Management Control and Letter Reports.** The responsible AIG will issue or sign transmittal memoranda for Management Control and the DDs shall sign letter reports directed to Department officials at a level below an Assistant Secretary. As appropriate, DDs may further delegate the authority to issue or sign transmittal memoranda for contract and grant audit reports. The authority to delegate does not relieve the DDs of their responsibility to assure a quality product.

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3. Sensitive Audit Reports. The responsible AIG will clear audit reports of a sensitive nature with the DIGAI and the IG. Sensitive reports include those that: (1) contain an adverse opinion or examples of gross mismanagement; (2) have a broad or far-reaching impact; or, (3) are of particular interest to Congress, the media, or high-level Department officials.

### **D. FINAL REPORT DISTRIBUTION**

The IG will send the Secretary an information copy of all Blue and Management Control reports. All reports are distributed to each Department official responsible for taking corrective action (officials to whom the recommendations are addressed), other Department officials, and to other interested parties upon receipt of a valid request.

1. Performance Audit Reports. The OAI shall make report distribution for all final Blue and Management Control performance audit reports. In addition to the distribution to the audited field activity, Management Control reports should be sent to the Headquarters program office sponsoring the field activity discussed in the report.

2. All Other Reports. Report distribution for all other reports is as shown below:

<b><u>REPORT DISTRIBUTION</u></b>	
<b><u>Office</u></b>	<b><u>Copies</u></b>
<b>Addressee</b>	1
<b>Courtesy Recipients (cc's)</b>	1
<b>Audit Liaison</b>	1
<b>DIGAI</b>	1
<b>DIGI, as appropriate</b>	1
<b>AIGs</b>	1
<b>OA Divisions</b>	1
<b>Internal Audit Groups, as appropriate</b>	1
<b>Audit Team</b>	1

3. Transmittal and Information Memorandum. Copies of final reports are transmitted to action officials using memoranda described below on 11-2 and 11-3. Except where noted below, all final reports should be accompanied with a transmittal memorandum even when management completely agrees with the report. The format to be used when transmitting final reports where no management decision is required is illustrated in OAI report guidance. Where a management decision is required, the format to be used in transmitting final reports is illustrated in OAI report guidance.

Final reports should also be transmitted to the Department's Audit Liaison. See OAI report guidance for the format to be used depending on whether a Management Decision is required or not required.

4. Blue Cover Reports. Final Blue Cover reports are transmitted to the Secretary using an information memorandum containing a summary of the audit. The information memorandum to the Secretary is bound in the audit report and signed by the IG. OAI

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report guidance illustrates the format to be used in the information memorandum. The transmittal memorandum to the action official should only contain a brief summary of the audit results because a summary of the audit results is already in the Secretary's information memorandum included in the audit report.

5. Management Control Reports. The information memorandum for a final Management Control report is addressed to the Department official responsible for the audited activity, signed by the DIGAI or responsible AIG, and bound in the audit report. The information memorandum should contain a summary of the audit and also follow the format illustrated in OAI report guidance. No transmittal memorandum to the action official is necessary where the addressee in the information memorandum and the transmittal memorandum would be the same Department official. In this case, language stating that no management decision is required or that a management decision is required should be placed in the discussion of management's reaction in the information memorandum of the report.

6. Letter Reports. Because letter reports are addressed to Department officials responsible for an audited activity, transmittal memoranda are not required.

## **CHAPTER 12**

### **FINANCIAL STATEMENT AUDITS**

#### **A. SCOPE OF CHAPTER**

This chapter provides guidance for conducting financial statement audits. It addresses both separate entity/fund financial audits and the audit of the Department of Energy (Department's) consolidated financial statements.

#### **B. OVERVIEW OF FINANCIAL STATEMENT AUDITS**

GMRA established requirements within the Federal government for audited financial statements. The Federal Financial Management Improvement Act (FFMIA) of 1996 builds upon and complements GMRA. It requires auditors to evaluate and report on an agency's financial management systems compliance in three areas: Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The Chief Financial Officers (CFO) Act requires the Department to prepare and submit to the Director of OMB a financial statement for the preceding fiscal year covering (1) each revolving fund and trust fund of the agency; and, (2) to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.

The GMRA amended the CFO Act and no longer mandates the performance of the separate entity/fund audits for the Department's revolving funds, trust funds, and accounts that involve substantial commercial functions. However, program managers value the information provided by such audits and have elected to continue providing funding for their execution. The GMRA expanded the provisions of the CFO Act and requires audited financial statements covering all accounts and associated activities of the Department be submitted to OMB by a designated date each year. These financial statement audits are to be conducted in accordance with GAGAS by the OIG or by an independent external auditor, as determined by the OIG.

1. Objectives of Financial Statement Audits. The objective of a financial statement audit is to determine whether the financial statements of an audited entity present fairly in all material respects the financial position and the related consolidated statements of net cost, changes in net position, custodial activity and combined statements of budgetary resources in accordance with Federal accounting standards.

2. Financial Auditing Standards and Guidance. When performing financial statement audits, auditors will adhere to established standards governing financial statement auditing in the Federal government.

a. Government Auditing Standards. Legislation requires that the standards published in "Government Auditing Standards," also known informally as the "Yellow Book" or GAGAS, be followed in audits of Federal departments and agencies. Specifically, Chapters 4 and 5 of GAGAS describe standards to be followed when performing financial statement audits and financial related engagements. Additionally, GAGAS incorporates the AICPA Statements on Auditing Standards (SAS), and Statements on Standards for Attestation Engagements (SSAEs).



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b. OMB Bulletin and Amendments on "Audit Requirements for Federal Financial Statements." The CFO Act, as expanded by the GMRA and FFMIA, requires OMB to establish government-wide financial management policies for executive departments and agencies and to provide overall direction and leadership to the Executive Branch on financial management matters. OMB's financial audit bulletin and amendments implement the audit provisions of these Acts, establishing the audit requirements for Federal financial statements, including OIG oversight, the scope of the audit, and depth of coverage in the audit reports resulting from the audit.

c. The GAO/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual (FAM). FAM describes the methodology for financial statement audits. It contains detailed implementation guidance for all four phases of an audit: (1) planning; (2) internal control evaluation; (3) testing of accounts, controls, and compliance; and, (4) reporting. Included in this manual is specific guidance for such critical procedures as assessing risk, establishing materiality, determining sample size, identifying specific laws and regulations for testing, evaluating an entity's financial integrity process, and assessing budget execution and data processing controls.

d. The DOE OIG, Office of Audits Audit Manual. This Audit Manual consolidates the policies, procedures, standards, technical guidance, and other techniques to be followed by the DIGAI and staff in planning, conducting, and reporting Department audit work on behalf of the OIG. Additionally, Chapter 6 of the Audit Manual establishes audit documentation protocols. When workpapers are documented outside of TeamMate by an independent public accountant (IPA) used by the OA, the IPA should comply with the intent of the Audit Manual. For example, an IPA's workpapers should be clearly tied to a purpose, source, scope, and conclusion (PSSC) and the PSSC should be documented and readily discernible.

3. Accounting Principles and Standards. To meet the objectives of a financial statement audit, the auditor needs to understand the appropriate accounting principles and standards used to prepare the financial statements. The Yellow Book cites three authoritative bodies for generally accepted accounting principles (GAAP); the GASB, FASB, and the sponsors of FASAB. GASB establishes accounting principles and financial reporting standards for state and local government entities. FASB establishes accounting principles and financial reporting standards for non-government entities.

- The sponsors of FASAB--the Secretary of the Treasury, the Director of OMB, and the Comptroller General-- jointly establish accounting principles and financial reporting standards for the Federal government, based on recommendations from FASAB. The Director of OMB and the Comptroller General will issue specific standards agreed upon by these three officials as FASAB standards.

OMB Circular A-136 states that the FASAB is the body designated by the AICPA as the source of GAAP for Federal reporting entities. The AICPA through SAS No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles (GAAP)* in the *Independent Auditor's Report*, as amended by SAS No. 91, *Federal GAAP Hierarchy*, established the following hierarchy of accounting principles for Federal government entities. Statements of Federal Financial Accounting Standards No. 34 incorporate this hierarchy into the FASAB's authoritative literature:

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- Officially established accounting principles consist of FASAB *Statements of Federal Financial Accounting Standards* and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB;
- FASAB Technical Bulletins and, if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides;
- Technical Releases of the Accounting and Auditing Policy Committee of the FASAB; and,
- Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the Federal government.

### C. CONSOLIDATED FINANCIAL STATEMENT AUDITS

This section describes the audit strategy, staffing of findings and recommendations, management response process, and reporting policy for the audits established by GMRA.

1. Audit Strategy. Under an audit strategy adopted by the OIG, OA uses the combined efforts of the AIGAA and IPAs to accomplish GMRA audits. The AIGAA is responsible for ensuring that audits required under GMRA are completed on time, including necessary coordination and development and implementation of a quality assurance process. This quality assurance effort will be conducted in concert with the work performed by IPAs on the consolidated financial statements of the Department as well as the separate entity/fund financial audits that feed into the Department-wide financial statement audit and direct reliance will be placed upon the work performed by the IPAs in this regard.

a. Germantown Audit Group. The AIGAA has designated the Germantown Audit Group as the audit control point to ensure that the audit requirements associated with the Department's consolidated financial statements are achieved in a timely manner with a quality product. Specifically, the Germantown Audit Group is responsible for:

- Preparing and issuing announcement letters, and arranging and participating in entrance and exit conferences;
- Developing all IPA work orders and task orders, and reviewing early task order deliverables;
- Ensuring that the IPA has provided independence statements and auditor qualifications information, as necessary, for employees and subcontractor employees assigned to the audit;
- Arranging audit coordination meetings with the IPA and CFO and attending all significant meetings;
- Reviewing IPA monthly status reports and billing invoices;
- Technical monitoring and oversight of all work performed by the IPA including reviewing all findings;

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- Coordinating, developing, and performing quality assurance procedures including execution of the *Quality Control Review Checklist* and follow up on disposition of OIG comments by the IPA;
- Conducting segments of the consolidated financial statement audit as necessary to ensure that the audit is completed within established timeframes. Audit documentation for each portion of the audit performed by the OIG will be included in separate TeamMate files;
- Developing and updating, as appropriate, a detailed risk assessment and a strategic plan which lays out the overall management approach for the audit, including milestones and staffing estimates;
- Developing reporting formats for workpaper summaries and audit reports;
- Coordinating the development of the Department-wide financial statement audit report and Headquarters management report; coordinating financial statement audit activities with external agencies, such as GAO, OMB, and Internal Audit; and,
- Overseeing implementation of the FFMIA.

The Germantown Audit Group will document all aspects of IPA monitoring in TeamMate. A TeamMate file will be established at the beginning of each audit cycle and will include documents describing the steps taken to monitor progress on the audit as well as attachments to the workpapers for copies of key documents. TeamMate will not be used for audit workpapers prepared by IPAs unless otherwise specified in the contract. Separate TeamMate files will be maintained for the separate entity/fund audits.

b. IPA Resources. The audit report on the Department's consolidated financial statements will be based upon audit work conducted by the IPA(s) and, as necessary, the OIG on the consolidated financial statements and the individual separate entity/fund financial statement audits. In addition, the OIG may contract with an IPA to perform specific agreed upon audit procedures. The Technical Monitor – Eastern Audits Division (EAD) will coordinate the issuance of work orders identifying the procedures to be performed by the IPA and coordinate IPA work to address audit needs as appropriate. As necessary, the Technical Monitor – EAD will rely to the extent possible on the direct assistance of internal auditors in applying specific audit procedures in support of financial statement audits. The Technical Monitor – EAD will obtain assurance that such audit work meets professional audit standards through the current annual Internal Audit assessment process and other quality assurance procedures.

2. Staffing of Findings and Recommendations. While the elements of findings and recommendations developed during financial audits parallel those developed during performance audits, the tighter reporting deadlines dictate a more streamlined staffing process. Rather than waiting for a draft audit report, findings and recommendations should be developed and staffed as soon as possible during the execution of the audit. Departmental management should provide comments on these findings and recommendations, including corrective actions taken or planned.

3. Management Comments on Audit Findings. Management should be notified that timely response to findings and recommendations is essential if management views are to be included in the final report. When management responds in a timely manner, their comments will be included in the related audit report. Due to the short reporting timeframe, the normal management reply process employed by the OIG will not be used. The audit team will obtain

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management comments on the findings and recommendations and hold an exit conference with appropriate management personnel. Normally, a draft copy of the report will be provided to management prior to the exit conference. A formal management response will not be required, and issuance of financial statement audit reports will not be delayed pending receipt of management comments to a draft report. Management's formal position on audit results will be established through the audit resolution process.

4. Reporting. At the completion of fieldwork, the IPA, in consultation with the OIG, will prepare and issue a series of reports to Departmental management, both at Headquarters and to each applicable field/operations office.

a. Department-wide Report. The Department-wide report transmitted to the Secretary of Energy by the IG, will consist of an Executive Summary and the following three parts, issued under one cover:

(1) Report on the Department of Energy's Consolidated Financial Statements. Based on the audit work performed, the IPA renders (or disclaims) an opinion on whether the Department's financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, financing activities, and custodial activities in accordance with Federal accounting standards. The format for this report will be consistent with OMB guidance and GAGAS. The audit opinion will fall into one of the following categories:

- Unmodified Opinion - The auditor is able to express an unmodified opinion only if the audit has been conducted in accordance with GAGAS and the auditor has been able to apply all the procedures the auditor considers necessary in the circumstances. In an unmodified opinion on the financial statements, the auditor concludes that the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, financing activities, and custodial activities in accordance with appropriate accounting principles and practices.
- Modified Opinion - The auditor should modify the opinion in the auditor's report if the auditor (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. The type of modified opinions and the decision regarding which type of modified opinion depends upon the nature of the matter giving rise to the modification and the auditor's professional judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. There are three types of modified opinions:
  - Qualified Opinion - The auditor should express a qualified opinion when (a) the auditor, having obtained sufficient appropriate evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or (b) the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

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- Adverse Opinion - The auditor should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- Disclaimer - The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

(2) Report on Internal Control Structure. Based on the audit work performed, the Report on Internal Controls will:

- State that, with respect to the internal controls pertaining to the financial statements, the auditor obtained an understanding of the design of significant internal control structure policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the Department's internal controls. See Chapter 5 of this Manual for particulars on assessing internal controls.
- State that with respect to Required Supplementary Stewardship Information (RSSI), the auditor determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by the current OMB Bulletin.
- Classify significant deficiencies and material weaknesses identified in accordance with the following definitions. Significant deficiencies are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated. Significant deficiencies are defined as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies that meet the materiality level established for the consolidated financial statement audit will be addressed in the Department-wide report on internal controls. The AICPA SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, also provides guidance on evaluating potential control deficiencies and provides examples.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- State that, in evaluating internal controls, the auditor considered matters reported by the Department in compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), prior and current audit reports, and other independent audit reports on financial matters and internal accounting control policies and procedures.
- Disclose the status of known but uncorrected significant findings and recommendations from prior audits that affect the current audit objective.

(3) Report on Compliance with Laws and Regulations. Auditors will report the scope of their testing of compliance with laws and regulations and the results of those tests. When auditors conclude, based on evidence obtained, that an irregularity or illegal act either has occurred or is likely to have occurred, they will report relevant information. The auditor will

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also report whether the Department's financial management systems substantially comply with FFMIA.

b. Management Letter(s). The auditor will communicate those findings identified during the consolidated financial statement audit that were not considered to be significant deficiencies and other management issues within the purview of the Department's CFO (i.e., policy related issues) in a management report. This management report will be prepared by the IPA and authenticated by the AIGAA, and is intended to inform Department management of weaknesses that were not included in the Report on Internal Control Structure in the Department wide report.

### **D. SEPARATE ENTITY/FUND FINANCIAL AUDITS**

This section describes the audit entities, audit strategy, organizational approach, quality assurance, and reporting processes for separate entity/fund financial audits.

1. Audit Entities. Financial statement audits, of the following eight Departmental separate entities/funds, may be performed on an annual basis:

- Southeastern Federal Power Program
- Southwestern Federal Power System
- Western Area Power Administration
- Bonneville Power Administration (Federal Columbia River Power System)
- Federal Energy Regulatory Commission
- Nuclear Waste Fund

2. Audit Strategy. The Department has historically contracted with IPA firms to perform financial statement audits of the separate entities/funds. While all of these audits are administered and coordinated by the OA, sponsoring programs separately fund them. Assuming that funds are available, current OIG policy indicates that such work will continue to be performed by IPAs. In conjunction with sponsoring program elements, OA will generally establish and execute a task order describing the level of effort needed for each engagement and monitor IPA activities throughout the course of the engagement.

3. Quality Assurance. The DIGAI has assigned responsibility for separate entity/fund financial audits to the AIGAA to include the necessary coordination and for developing a quality assurance process. Technical direction and oversight functions (to include quality assurance checks) are performed by the Technical Monitor – EAD. OA Headquarters staff will provide advice and assistance on overall policy matters. To ensure that the IPA provides the OIG with quality reports, the Technical Monitor – EAD's responsibilities include, but are not limited to, the following:

- Providing periodic status updates and coordinating all significant accounting or programmatic issues;
- Reviewing the IPA's audit approach and milestones for the audits;
- Determining whether major financial system enhancements are sufficiently reviewed in the IPA's internal control work;
- Participating in progress meetings with the CFO and program management staff to monitor control and substantive test work and to assist in early resolution of problems;

## CHAPTER 12 – FINANCIAL STATEMENT AUDITS

- Performing workpaper reviews using FAM 650 and CIGIE's *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General – Appendix F Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm* and reporting on the results of the review to the IPA; and,
- Reviewing draft and final audit reports for accuracy and completeness.

4. Reporting. Separate entity/fund audits are performed annually. The IPA will submit its work products directly to the Germantown Audit Group. This audit group will prepare and the AIGAA will sign the memoranda transmitting reports to the auditees. OAI or OMA Headquarters will distribute reports to all primary recipients, i.e., addressees, cc's, audit liaisons, other OIG audit offices, etc.

## CHAPTER 13

### CONTRACT AUDITING

#### **A. SCOPE OF CHAPTER**

This chapter covers OA's policies and procedures for conducting contract audits. For the Department's non-management and operating contracts, grants and other agreements, responsibility for performing contract audits normally rests with other Federal agencies. However, on occasion, OA may be called upon to conduct contract audits, which are attestation engagements that focus on cost allowability and compliance issues. For ease of presentation in this chapter, these engagements will be referred to as contract audits. In addition, contracts, grants, cooperative agreements and other Federal government-funded awards will be referred to as contracts; and, contractors, grantees and other recipients of Federal government funds will be referred to as contractors.

#### **B. BACKGROUND**

Contract audits are conducted for the purpose of providing financial advice and recommendations to contracting officers in awarding, administering and closing out contracts. For example, before awarding a contract, a contracting officer might request a pre-award contract audit to evaluate the allowability and reasonableness of a prospective contractor's cost proposal and assess other financial-related issues, such as the adequacy of the contractor's cost accounting system and financial capability to perform a contract. After a contract is awarded, the contracting officer might request a cost incurred contract audit to determine the allowability of actual costs claimed by a contractor and the contractor's compliance with contract terms and applicable laws and regulations.

#### **C. TYPES OF CONTRACT AUDITS**

Some of the more common types of contract audits are as follows:

1. **Pre-award**. The objective of a pre-award audit is to evaluate an offeror's proposed costs for use as the basis for negotiating a contract price that is current, accurate, and complete. In the pre-award audit, the auditor is providing the contracting officer and the procurement team with advice on estimated future costs.
2. **Incurred Cost**. The objective of an incurred cost audit is to determine the allowability of direct and indirect costs claimed by a contractor. Allowable costs are costs incurred that are reasonable, allocable, and in accordance with the terms of the contract, applicable cost principles, laws and regulations, and generally accepted accounting principles and practices appropriate to the particular circumstances. For multi-year contracts, interim audits, such as annual or bi-annual, of incurred costs may be required. The frequency of interim audits will depend upon contract dollar value, period of performance, requests from the contracting officer, and availability of audit resources. An interim audit of indirect costs may be required annually in order to finalize annual indirect cost rates.
3. **Cost Accounting System**. The objective of a cost accounting system audit is to determine if the cost accounting system of an offeror or contractor is adequate for



estimating, accumulating, and reporting costs. In addition, contracting officers can also request the auditor to review the adequacy of a contractor's Cost Accounting Standards Disclosure Statement and/or to determine if the contractor is in compliance with Cost Accounting Standards. Also, in assessing risk for an incurred cost audit, the auditor will evaluate a contractor's cost accounting system to determine the reliance that can be placed on it to prevent unallowable costs from being claimed.

4. Financial Capability. The objective of a financial capability review is to determine whether an offeror has adequate financing resources to perform and complete the work required under a contract. Contracting officers can request financial capability evaluations as part of a pre-award audit or as a separate review.

5. Contract Termination. The objective of a contract termination audit is to determine the allowability, allocability, and reasonableness of the amounts claimed in a contractor's termination settlement proposal. Terminations may be at the Department's convenience or due to default by the contractor. In developing a settlement proposal for a termination made for the Department's convenience, the contractor generally requests compensation for all costs resulting from the contract not being carried to completion.

**D. AUDIT COGNIZANCE**

A cognizant audit agency is a Federal agency responsible for performing all contract audits at a contractor. It is the Federal government's general policy that only one agency will be designated as the cognizant audit agency for a contractor in order to ensure audit consistency, avoid duplication of effort, and facilitate contract administration. Audit cognizance results in efficient use of audit resources because it enables one set of auditors to develop experience and a knowledge base for the contractor's operations and cost accounting system.

For entities other than educational institutions and nonprofit organizations, the Federal Acquisition Regulation assigns DCAA as the cognizant Government audit agency, unless other arrangements are made. For educational institutions and nonprofit organizations, the cognizant Federal agency is established according to OMB Circular A-21 or Title 2 in the Code of Federal Regulations (CFR), Subtitle A, Chapter II, Part 220, *Cost Principles for Educational Institutions*, OMB Circular A-122 or Title 2 CFR, Subtitle A, Chapter II, Part 230, *Cost Principles for Nonprofit Organizations*, and the successor uniform OMB direction, Title 2 CFR, Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.

Under a 1991 Memorandum of Understanding with DCAA, the OIG is the cognizant audit agency for the Department's major contractors responsible for managing and operating Department-owned or Department controlled laboratories, facilities and resources. The Memorandum defines major contractors as those under management and operating contracts. As arranged, DCAA retained cognizance over, and responsibility for conducting contract audits at, the Department's non-major contractors. See Chapter 14 for details of OA's audit coverage of the Department's major contractors.

**E. GENERAL CONTRACT AUDIT POLICIES**

The following are OA policies and procedures applicable to contract audits:

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1. Accepting Requests for Contract Audits. Because OA does not routinely perform contract audits, any requests received by OA offices should be forwarded to the responsible AIG with a copy to the DPAQA. The responsible AIG should determine whether the request should have been directed to another agency that has audit cognizance. Also, before accepting any request, the responsible AIG should prioritize the requested audit in relation to all other planned audits to determine whether conducting the audit will be an effective and appropriate use of OA resources. The AIGs are responsible for advising a requester on whether the OA will perform a requested audit.
2. Conducting a Contract Audit. OA auditors will follow OA policies and procedures contained in this Manual that are applicable to all OA audits. For example, all contract audits must be documented in a TeamMate audit file in accordance with policies and procedures expressed in Chapter 6 of this Manual. Contract audits will be conducted in accordance with the general, field work, and reporting standards for attestation engagements contained in GAGAS.
3. DCAA Contract Audit Manual. DCAA, in its *Contract Audit Manual (CAM)*, has developed detailed guidance for each type of contract audit. DCAA's CAM provides excellent guidance for in-depth audit techniques in various situations and should be consulted by OA auditors conducting any contract audit. DCAA's CAM is available at DCAA's Web site.
4. Proprietary Data. When performing contract audits, consideration must be given to protecting an entity's proprietary data. The auditor must keep proprietary data confidential and not release it publicly. Under 18 U.S. Code 1905, the auditor can be held liable for disclosing proprietary data. Therefore, the auditor must use the utmost care in identifying and marking all such data in the TeamMate audit file. The following notice, addressing the restrictions on releasing information in a contract audit report, must be included on the title page of the report and similarly addressed in the report's transmittal memorandum:

*This audit report may contain proprietary or other sensitive information. The restrictions of 18 U.S. Code 1905 should be considered before this information is released to the public. All Freedom of Information Act requests for audit reports received by the Office of Inspector General will be referred to the cognizant contracting officer for determination as to releasability and a direct response to the requestor. Furthermore, the information contained in this report should not be used for purposes other than those intended without prior consultation with the Department of Energy's Office of Inspector General regarding its applicability.*

If a subcontract is audited, a statement disclosing the subcontractor's views regarding release of the report to the prime contractor or to a higher-tier subcontractor should also be inserted in the report and in the transmittal memorandum.

5. Discussing Results with Auditee. For contract audits other than pre-award audits, audit results and findings are normally discussed with contractor management officials. Details of findings, analysis, calculations, conclusions, and recommendations should be discussed. The auditor should obtain contractor management's verbal comments on findings and recommendations and include management's comments in the report. For

pre-award audits, the auditor can discuss facts related to questioned, unsupported and unresolved costs with the offeror's management only if such discussions are approved in advance by the contracting officer or the procurement official who requested the audit.

6. Draft Reports. Draft reports are not issued for contract audits. However, if requested or at the auditor's discretion, the auditor can provide preliminary audit results to the contracting officer or procurement official as issues develop during the audit. For pre-award audits, the auditor should advise the contracting officer or procurement official of audit results as soon as available.

7. Exit Conference. For contract audits, the exit conference is held at the conclusion of fieldwork. For cost incurred audits, the findings are discussed in detail, and contractor comments and reactions are obtained verbally or in writing for inclusion in the audit report. For pre-award audits, an exit conference to discuss the audit results with the offeror can be held only if approved in advance by the contracting officer or responsible procurement official.

8. Subcontractor Costs. The proposed or claimed costs to be audited can sometimes include costs from subcontractors that also need to be audited. It is the responsibility of the contracting officer or the prime contractor to request an assist audit from the subcontractor's cognizant audit agency. If the results of the subcontract audit are received prior to issuance of the audit report on the prime auditee, the subcontract audit results should be incorporated. The report should identify the audit work performed by the subcontractor's cognizant auditor. If the results of the subcontract audit are not received prior to issuance of the audit report, the subcontract costs should be classified as unresolved.

***F. CONTRACT AUDIT REPORT***

The format of a contract audit report will be determined by the audit request, type of audit, complexity of the subject matter of the audit, and the findings and recommendations. The AIGs normally issue contract audit reports. Details on the contract audit report are as follows:

1. Report Addressee. The contract audit report is normally issued to the contracting officer or the procurement official who requested the audit.
2. Identification of Requesting Organization. Describe why the audit was being conducted. For example, the report should identify the organization and office requesting the audit.
3. Subject of Audit and Scope. Identify what was covered by the audit. For example, the report should identify and briefly describe the specific cost proposal or claim covered by the audit. In addition, the report should identify the time period covered by the audit and the amount of cost and fee proposed or claimed.
4. Criteria. Cite the criteria used by the auditor to evaluate the contractor's costs. For example, in evaluating the allowability of costs claimed in an incurred cost audit, the auditor would normally cite the contract terms and the applicable cost principles.
5. Audit Objective. State the audit objective. The most common contract audit objective is to determine the allowability of costs proposed or claimed. If the auditor was

## CHAPTER 13 -- CONTRACT AUDITING

requested to form an opinion on the cost accounting system, this should be included as one of the audit objectives.

6. Methodology. Briefly describe the auditor's methodology. For example, if appropriate, a cost incurred audit report should state that the auditor validated costs by tracing them to books of original entry and supporting documentation. A pre-award audit report should state that the auditor analyzed projections, historical data, and other cost and pricing data on which the estimated costs were based.

7. Audit Coverage of Internal Controls. Indicate the extent of work on internal controls. For examination-level attestation engagements, GAGAS requires auditors to obtain a sufficient understanding of internal control that is material to the subject matter in order to plan the engagement and design procedures to achieve the objectives of the engagement.

8. Auditing Standards. State that the audit was performed in accordance with GAGAS for attestation engagements.

9. Field Work Completion Date. State the date that fieldwork was completed.

10. Circumstances Affecting the Audit. Identify any circumstances that impacted the audit, such as scope limitations, restrictions on access to information, or other factors affecting the audit.

11. Audit Results. Provide conclusions on each of the objectives. For example, in an incurred cost audit, the report should identify the amount of costs questioned and unresolved and state the conclusion that the balance of costs is provisionally approved pending final acceptance. The report should also state that the final acceptance of amounts claimed under Government contracts does not take place until performance under the contract is completed and accepted by the responsible contracting officials and audit responsibilities have been completed. In a pre-award audit, the report should identify the amount of costs questioned, unsupported and unresolved, and state the conclusion that the balance of proposed costs are adequate for use as a basis to negotiate a contract amount.

12. Finding Details. The auditor has two options for reporting finding details. The auditor can present finding details in the body of the report or in exhibits. Proper reporting will be the presentation that describes the audit clearly and concisely but provides enough detail to enable the contracting officer to understand the results and resolve findings. If there are only a few findings where amounts are not significant and issues are not complex, the auditor will likely be able to present the results in the body of the report. However, if there are several findings, amounts are significant or the findings are not easily explained and require supporting calculations, the auditor should present them in supporting exhibit(s). If exhibit(s) are used, the auditor should state in the body of the report that details of findings are presented in the exhibit(s).

13. Finding Attributes. The extent of development of finding attributes in contract audits varies from situation to situation. For all findings, the condition, criteria, and effect are always needed. Cause should only be presented if it has been adequately developed.

14. Small Dollar Findings. As a general rule, all costs found to be questioned, unsupported or unresolved are reported. However, if the total dollar amount of a finding is very minor (such as under \$100), it need not be reported. Such unreported amounts should be disclosed to the contractor at the exit conference.
15. Recommendations. Recommendations are needed if the auditor has identified issues that require corrective actions. Recommendations should be addressed to the contracting officer and should recommend that the contracting officer direct the contractor to take corrective action. For example, a recommendation could be made to correct a specific cost accounting system weakness. Recommendations may be implied with respect to questioned cost and need not be stated (i.e., recover the amount questioned).
16. Contractor's or Offeror's Comments. Indicate whether findings were discussed with contractor or offeror officials and identify the titles of the officials with whom any discussions were held. Names of officials should never be included. Contractor or offeror comments on audit results and recommendations should also be included, if obtained. If written comments are lengthy, the comments can be included as an attachment to the report. If comments were requested but not provided, the report should state that no comments were received.
17. Exhibits. The number and design of exhibits will depend on the complexity of the findings. As a general rule, exhibits should provide sufficient detail and explanation in order for the contracting officer to fully understand the audit results and resolve findings. Exhibits can have supporting schedules if necessary. However, exhibits should not contain peripheral information that does not add to the presentation of the audit findings.
18. Other Matters to be Reported. Include matters not directly related to the audit objective(s), but which need to be included as a matter of record. For example, the auditor can describe a pertinent issue that will be addressed in more detail in another audit report or should otherwise be considered by the contracting officer.
19. Attachments. Attachments can be included if necessary. Examples of typical attachments are lengthy contractor comments, an assist audit report received from the cognizant audit agency for a subcontractor, or a technical analysis report received from the procurement office and used in the auditor's computation of questioned costs.
20. Proprietary Data. As stated in section E.4 of this chapter, the auditor must protect proprietary data in a contract audit and a notice, addressing the restrictions on releasing the information in the audit report, must be included on the title page of the report and similarly addressed in the report's transmittal memorandum. See section E.4 for the notice.
21. Prohibition on Releasing Audit Report. It is the contracting officer's responsibility to determine whether a copy of the report should be released to the auditee. Therefore, the auditor should never release a copy of the report to the auditee without prior approval from the contracting officer or responsible procurement official. The report transmittal memorandum should state the following:

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*The Office of Inspector General has no objection to the release of this report at the discretion of the contracting officer to the duly authorized representatives of the contractor (or offeror).*

22. Follow-up Request. The transmittal memorandum for the contract audit report should request that the report addressee provide the OA with the details of the final resolution of the questioned costs or other findings contained in the audit report.

23. Transmittal Memorandum. See Exhibit A for an example of a transmittal memorandum for a contract audit report.

**EXAMPLE OF TRANSMITTAL MEMORANDUM FOR CONTRACT AUDIT REPORT**  
(USE MEMORANDUM PAPER)

DATE: Month XX, XXXX

REPLY TO  
ATTN OF: IG-XX (Project Number)

SUBJECT:

TO: Requestor

In response to your request, attached are two copies of the subject report. (State why the audit was performed and what was audited.)

The Office of Inspector General has no objection to the release of this report at the discretion of the contracting officer to the duly authorized representatives of the prospective contractor. All Freedom of Information Act requests for audit reports received by the Office of Inspector General will be referred to the cognizant contracting officer for determination as to releasability and a direct response to the requestor. Information contained in this audit report may be confidential. The restrictions of 18 U.S.C. 1905 should be considered before this information is released to the public.

Please provide the details of the resolution of our audit findings. If any further information is required, we will furnish it on request.

NAME  
Assistant Inspector General  
for \_\_\_\_\_  
Office of Inspector General

Attachment

## **CHAPTER 14**

### **GUIDELINES FOR CONTRACTOR INTERNAL AUDITORS**

#### **A. SCOPE OF CHAPTER**

Chapter 14 is intended to assist contractor Internal Audit Activities (Internal Audit) in coordinating audits, minimizing duplication, and ensuring compliance with professional auditing standards. Specifically, Chapter 14 provides guidance for Internal Audit regarding the planning and scheduling of allowable cost reviews and performance audits, and assuring compliance with professional standards.

#### **B. AUDIT RESPONSIBILITIES FOR DEPARTMENTAL CONTRACTORS**

Audit responsibilities for Department contractors vary depending on the contract type and relative size of the contractor. As arranged for in a 1991 Memorandum of Understanding with DCAA, the OIG is the cognizant audit agency for the Department's major contractors responsible for managing and operating Department-owned or Department controlled laboratories, facilities and resources. The Memorandum defines major contractors as those under management and operating (M&O) contracts. The Department over time has also awarded other contract types to run its major sites, facilities or work programs (e.g., site and facility clean up contracts). DCAA retained responsibility for conducting incurred cost audits and other cost reviews for the Department's non-major contractors. The OIG has responsibility for performance audits and all other audits and reviews outside of DCAA's traditional contract audit function. Auditors should be familiar with the terms under which DCAA performs its work at any contractor.

A unique feature of the M&O contract type is the contractual requirement to maintain an internal audit function, typically, through Department of Energy Acquisition Regulation (DEAR) clause 970.5232-3, *Accounts, Records, and Inspection*, (i) *Internal Audit* and the use of special contract clauses. Recognizing an opportunity to maximize audit coverage and make efficient use of resources, the OIG, in coordination with Department's Chief Financial Officer (CFO) and Office of Procurement and Assistance Management, and the Department's major contractors implemented the Cooperative Audit Strategy in 1992. This Strategy places reliance on Internal Audit to provide audit coverage at Department major contractor locations.

To ensure uniform implementation and clarify the requirements of DEAR 970.5232-3(i), the Department added the Cooperative Audit Strategy into its Acquisition Guide. Chapter 70c.4 (dated March 2004), defines Internal Audit responsibilities to include: (1) its placement within the contractor's organization including reporting requirements; (2) its size and the experience and educational standards of the audit staff; (3) its relationship to the corporate parent(s) of the contractor; (4) the audit standards to be used; (5) an overall audit strategy for relevant performance period of the contract, considering particularly the method of auditing costs incurred in the performance of the contract; (6) the intended use of external audit resources; (7) the plan for pre-award and post-award audit of subcontracts; and (8) the schedule of peer review. Internal Audit is to document its approach to meeting these responsibilities in an Internal Audit Implementation Design for contracting officer approval.



**C. PLANNING AND SCHEDULING INTERNAL AUDITS**

The OIG is responsible for developing an annual Department-wide audit plan using a risk assessment methodology that considers, among other factors, requests, and recommendations for audit coverage from various officials within the Department. In addition to Internal Audit, the OIG coordinates with organizations having related functions, such as the GAO, Department Headquarters functions and field offices, and DCAA. Consistent with the Cooperative Audit Strategy, the OIG relies on the work of Internal Audit to minimize duplication and maximize audit coverage of Department contractors to the extent possible.

To help with Internal Audit's planning and scheduling, the OIG will provide planning guidance to the head of contracting activities and Internal Audit in February of each year to focus efforts on high-risk challenges, emerging risks and vulnerabilities.

1. Planning. Contractor annual audit plans should be based on risk assessments that reflect organizational unique needs, considerations, and requirements. Risk assessment by appropriate audit organizations will facilitate the best use of available audit resources. Annual audit plans based on acceptable risk assessment methodologies should provide adequate audit coverage over those areas most susceptible to waste, fraud and abuse. The risk assessment should include attributes such as adequacy of internal controls, length of time since last audited, dollar value/materiality, changes of systems, and results of prior audits. The intent is to provide audit coverage over vulnerable areas on an annual basis. Internal Audit should document its risk assessment process and reasons for classifying functional areas as having low or no risk.
2. Scheduling. The overall audit objective is to provide comprehensive audit coverage by scheduling specific performance and other audits of Department programs, projects, functions, and activities. The audits scheduled should be based on the risk assessment methodologies described above and not on an arbitrary cycle or timeframe. Internal audit should audit the allowability of costs at least once a year. No specific schedule or cycle is mandated for completion of performance (economy & efficiency or program) audits as presented in this chapter. However, Internal Audit should plan to perform at least one such audit annually. Additional performance audits should be scheduled based on the results of the risk assessments and as audit resources are available.

Internal Audit must provide annual audit plans to the appropriate field office or contracting activity by June 30 of each year of contract performance, and to the designated OIG representative by July 31 of each year. Additionally, Internal Audit must summarize the results of its activities pursuant to the previous plan in an annual report due by January 31st of each year. More detailed guidance on assessing risk and developing annual audit plans is provided in Exhibit A.

**D. ALLOWABLE COST AUDITS OF CONTRACTOR COSTS**

Accounting for and payment of allowable costs are other unique features of the Department's M&O type contracts. The Department pre-finances costs through letters of credit or cash advances and the contractors maintain separate and distinct system of accounts, records, documents, and other evidence showing and supporting all costs incurred, revenues or other credits. The majority are integrated contractors, meaning their accounts are integrated with

Department's systems, through the use of reciprocal accounts. There are also a few non-integrated M&O type contractors that have similar accounting requirements to link their accounting with the Department's systems. Whether integrated or not, these contractors are required to prepare a cost statement (e.g., "Statement of Costs Incurred and Claimed" [SCIC]) to account for all financial activity for the fiscal year. The cost statement serves as the contractor's claim and certification that the costs, to the best of the certifying official's knowledge and belief, have been incurred and are allowable under the contract.

These cost statements must be approved by Department representatives and reviewed by the OIG. The Department's approval of the cost statements constitutes the Department's acknowledgment that the net costs incurred are believed to be allowable under the contract and that those costs have been recorded in the accounts maintained by the contractor in accordance with Departmental accounting policies. For integrated contractors, this certification and approval process is governed by the Department's Financial Management Handbook (Handbook), in Chapter 23, *Statement of Costs Incurred and Claimed*. The process for non-integrated contractors is essentially the same but governed by a specific contract clause. As for audit, the OIG relies on Internal Audit to perform an audit of the cost statements. Exhibit B illustrates a sample audit program for Internal Audit to use when conducting the allowable costs reviews. Chapter 15 contains the OIG's policy and approach for relying on Internal Audit and signing the contractor's cost statements.

***E. PERFORMANCE AUDITS OF CONTRACTOR OPERATIONS***

As discussed in Chapter 10, performance audits provide management, and those charged with governance and oversight, with objective results to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. Performance audit objectives cover a variety of areas including assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and providing prospective analyses of future events. The performance audit is designed to provide audit coverage of a major contractor's activities through examination of its auditable entities as described in Exhibit A. Although interrelated and often addressed together, the following discusses possible economy and efficiency and program objectives for performance audits at major contractors.

1. Economy and Efficiency. Economy and efficiency audit objectives determine whether the major contractor is acquiring, protecting and using its resources in the most productive manner to achieve program objectives. Examples of general economy and efficiency audit objectives are to determine the:

- Extent to which resources are managed and used efficiently.
- Economy and effectiveness of functional practices in fulfilling assigned responsibilities.
- Reliability and integrity of management information reports on cost, schedule, and performance of functions.
- Extent of compliance with contract requirements and laws and regulations governing acquisition, management, and use of an entity's resources.
- Adequacy of asset controls to provide reasonable safeguards against waste, loss, or misuse.

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A brief discussion of each general audit objective follows:

- (1) Efficient Use of Resources. Cyclical audit coverage will include not only an examination of individual functional performance, but also an examination of the collective contribution of all applicable functions affecting the use of each type of resource such as cash, materials, facilities, equipment, and labor. Examination of the management and use of resources may cut across several functional organizations. The auditor must also consider the resource status and the functions related to the planning, acquisition, control, and consumption of the resource. Functions are somewhat interdependent when considered from the standpoint of the event cycle affecting each type of resource.
  - (2) Economy and Efficiency of Functional Practices. Economy and effectiveness of functional services can be judged in several ways. Operating program management judges the effectiveness of functional support by the quality, timeliness and usefulness of the services provided. Functional managers and senior management are concerned with costs, as well as the effectiveness of functional services. When properly designed, accountability reports should gauge efficiency and economy of functional operations, comparing costs and output to approved budgets and performance standards. The auditor needs a thorough understanding of functional practices to distinguish essential activities from supporting and/or unnecessary activities, and help management simplify, combine or eliminate activities.
  - (3) Reliability and Integrity of Management Information on Cost, Schedule and Performance. Cost and performance information is essential to good management. Reports should be designed to meet the needs of management. Information in reports to management should be timely, complete, useful, and reliable. Performance audit should determine whether these criteria are being met. Furthermore, it is important to ascertain whether the information in reports is being used effectively in the management and control of functional activities.
  - (4) Compliance with Contract, Laws and Regulations. Organizations are responsible for knowing what contract provisions and laws and regulations apply to its activities and for ensuring compliance with these requirements. One objective of performance audits is to determine the extent of compliance with these requirements.
  - (5) Safeguarding of Assets. During performance audits, auditors should determine if the contractor is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the contractor's resources. These audits provide an opportunity to examine asset safeguards in greater depth than do financial audits.
2. Program Audits. Program audits address the effectiveness of a program and typically measure the extent to which a program is achieving its goals and objectives. Accordingly, a program audit must have measurable goals and objectives to use as criteria. These would usually be found in approved performance and evaluation management plans, institutional plans, financial plans, and agreements governing the major contractor's work. If not available for the specific project or task under audit, it is

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possible to work with management to develop mutually acceptable measurement criteria and then undertake a program audit. Some example general objectives of a program audit are to:

- Assess whether the objectives of a proposed, new or ongoing program are proper, suitable, or relevant.
- Determine the extent to which a program or program subdivision has achieved the desired results.
- Assess the effectiveness of the program and/or of individual program components.
- Identify factors inhibiting satisfactory performance.
- Determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost.
- Determine whether the program complements, duplicates, overlaps, or conflicts with other related programs.
- Identify ways of making programs work better.
- Assess compliance with laws and regulations applicable to the program.
- Assess the adequacy of management's system for measuring and reporting effectiveness.

Program audits also include a review of contract provisions, and Department directives, as well as an evaluation of administrative controls that have a bearing on the attainment of specified goals and objectives.

The preceding discussion of general performance audit objectives correlate with internal control objectives. Accordingly, each performance audit survey should include review and evaluation of reports, policies and procedures, and other documentation relative to applicable internal control systems. This procedure should provide valuable insight for the development of more specific sub-objectives.

### ***F. ASSURING COMPLIANCE WITH PROFESSIONAL STANDARDS***

The OIG can rely on audit work performed by Internal Audit as long as it can obtain assurance that the work meets professional auditing standards and other requirements. In general, the OIG's assessment of Internal Audit will review external (peer) reviews and field office appraisals.

1. External (Peer) Reviews. In accordance with standards established by the Institute of Internal Auditors (IIA), external reviews of Internal Audit should be conducted at IIA-specified intervals to appraise the quality of Internal Audit's operations. Qualified persons who are independent of the organization and who do not have either a real or an apparent conflict of interest should perform these reviews. These reviews should also assess how well Internal Audit complies with contractual audit requirements, normally the standard internal audit clause required by DEAR 970.5232-3(i), and with applicable professional auditing standards.
2. Appraisals. Department Order 224.2, *Auditing of Programs and Operations*, as amended, requires the Heads of Field Organizations to appraise the Internal Audit

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function of the Department's contractors under their jurisdiction. Specifically, the field office is required to evaluate the adequacy of coverage, technical competency, objectivity, independence, and work performed by Internal Audit.

The assessment of external reviews and appraisals of Internal Audit should aid the OIG in deciding the extent to which reliance can be placed on audit coverage provided by Internal Audit. Chapter 15 outlines the OIG's policy and approach for determining whether the work of Internal Audit was done in accordance with professional auditing standards and that it met the audit objectives.

### AUDIT PLANNING AND RISK ASSESSMENTS

The annual audit plan is the contractor Internal Audit's schedule of planned activities. The audit plan provides coverage of those areas most vital to the conservation and profitable employment of plant assets and to the protection of the Department's interests. The audit plan is submitted by contractor Internal Audit to the Site/Operations Office by June 30 of each year of contract performance, identifying the planned audit activities for the next fiscal year.

Internal Audit should perform and document a risk analysis to determine in which areas audits will be accomplished and to support the annual audit plan. This risk analysis should consider the entire audit universe of the major contractor. Breaking down the universe into auditable entities is an important first step in the process. The types or categories of entities will vary from organization to organization, taking the form of projects, programs, systems, or business functions that provide control and administration of resources and services required to directly support program activities. A list of auditable entities may look something like this:

Financial Management	Safeguards & Security Management
Procurement Management	Environment, Safety & Health Management
Human Resource Management	Emergency Management
Construction & Facilities Management	Project Management
Sustainability Management	Property Management
Information Technology	Traffic, Fleet & Packaging Management
Support Services	Planning & Budget Management
Communications	Quality Assurance Management

This list illustrates the general auditable entities. However, it can be much more specific. Financial Management, for example, could be divided into smaller activities like Cash Management, Accounts Payable, Accounts Receivable, Property Accounting, Travel, Financial Reporting, and Payroll. The auditable entities should be at the lowest level needed to ensure that coverage of the area of concern can be performed within the scope of an audit. For example, an audit of Accounting may be too broad to accomplish in a reasonable amount of time but Accounts Payable may be manageable.

Because the number of auditable entities that comprise the audit universe coupled with limited audit resources prohibits performing audits of all auditable entities, a review and evaluation of risk associated with each auditable entity should be conducted in order to identify the entities exposed to risk and to determine where Internal Audit's efforts should be concentrated. While the risk factors should be tailored to your organization, the following factors are essential in the determination of the risk level for the audit universe:

Quality of Internal Controls. Internal controls are the process designed to provide management with reasonable assurance regarding the entity's achievement in (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations. Key components of a control structure include: (1) control

environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring. Key components must be considered in assessing the quality of internal controls.

1. The control environment relates to the entity's values and philosophy. These attributes include integrity and values, management's attitude towards controls and its philosophy and operating style, the organization structure (e.g., an independent board of directors), commitment to competence, and personnel related policies and procedures. A good understanding of controls by management and management's strong support for controls is essential elements of a strong control environment.
2. The risk assessment component deals with the entity's identification and communication of risk to the organization. It involves setting consistent goals and objectives throughout the organization; identification of key success factors; identification and analysis of risks by management; and change management.
3. Control activities include reviews and approvals; management of functions and activities; information processing; physical and system safeguards; performance indicators; and segregation of duties. The specific controls are the particular policies and procedures relating to the processing of transactions that management has established to provide assurance its objectives will be achieved such as proper authorizations, adequate segregation of duties, adequate physical controls, etc.
4. The component relating to information and communication involves internal and external sources of information; information processing and reporting; quality of information; internal and external communications; and means of communication.
5. Monitoring deals with ongoing monitoring on activities, separate evaluations, reporting of deficiencies, and improvement opportunities.

New or Changing Controls, Systems, Program, or Operations. An auditable entity's existing and future operating characteristics need to be considered in performing risk assessment. If existing operations are complex, there is more room for error or failure to accurately report results of the organization's activities. A change in management's philosophy without adequate internal controls being established could lead to undesirable results. Reorganization of responsibilities and activities could increase the potential for transactions to be reported and recorded incorrectly or not recorded at all. It is also important to recognize changes in information technology systems. These might be automating manual processes or the replacement of a financial management system or upgrades to hardware and software. These changes may introduce errors in operations or cause security breaches and data losses, impacting the effectiveness of controls until the new systems are operating reliably.

Financial Exposure/Materiality. The two pieces that comprise this factor are materiality and the economic environment (state of the economy and congressional direction). In determining financial exposure, primary consideration must be given to the significance of the dollar amount. Consideration should be given to the significance of an area in relation to the particular entity such as legal entity, operational unit, reporting unit, etc. In prioritizing the audits to be performed, financial exposure will be a significant factor.

Results of Previous Reviews. The results from previous reviews conducted by contractor Internal Audit or the OIG have a significant influence on the requirements to reassess the function. Also, the results of the Department's latest Business Management Oversight Program

Review (performed annually for a number of contractor functions during a 2-week period), "For Cause" Reviews, and similar external reviews or assessments should be considered. If the prior audit or review indicates a strong control environment, a subsequent review may be postponed in order to concentrate audit resources in another area.

Time Since Last Audit. An auditable entity that has not been audited by contractor Internal Audit, or is not audited periodically or regularly has a much higher risk of control weaknesses than one that has been reviewed annually.

The factors should represent important aspects of the auditable entity's risks and, accordingly, should be limited in number. The influence of any one factor is diluted if too many factors are in play. Each of the identified areas of risk exposure should then be weighted based on the significance or consequence the factor has on the organization. Both the risk exposure and weight factors may vary from year to year and should be evaluated annually.

The next step is to determine the level of risk for all auditable entities in the identified audit universe. This should be on a consistent numeric scale. This rating of risk exposure is a difficult and time-consuming task. The level of exposure for each area of risk is determined as it applies to a particular auditable entity. The risk rating is then multiplied by its associated risk weight factor. The resulting risk factor scores are added to obtain a risk factor total. This total is a numeric representation of the risk exposure for a given auditable unit with the highest score representing the highest exposure/vulnerability.

The following Matrix illustrates how the suggestions discussed above could be applied starting with the general list of auditable entities.

EXAMPLE RISK ASSESSMENT MATRIX  
INDIVIDUAL WEIGHT FACTORS OF RISK EXPOSURE/POTENTIAL RISK FACTORS

<u>AUDITABLE ENTITY</u>	<u>IG/DOE REQUEST</u>	<u>QUALITY OF INTERNAL CONTROLS</u>	<u>NEW OR CHANGING CONTROLS, SYSTEMS, PROGRAM, OPERATIONS</u>	<u>FINANCIAL EXPOSURE</u>	<u>RESULTS OF LAST AUDIT</u>	<u>YEARS SINCE LAST AUDIT</u>	<u>TOTAL RISK VALUE</u>	<u>TOTAL EST AUDIT DAYS</u>
Weight:	10	5	4	3	2	1		
<b>FINANCIAL MANAGEMENT</b>								
Cash Management		2	4	2	3	3	41	
Accounts Payable		1	3	3	5	3	39	
Accounts Receivable		1	3	4	5	4	43	
Property Accounting		1	1	3	4	2	28	
Travel		4	4	3	4	4	57	20
Financial Reporting	Yes	2	5	3	4	4	61	130
Payroll		3	5	4	2	5	56	30
<b>PROCUREMENT MANAGEMENT</b>								
Acquisition		3	4	3	3	3	49	
Continue adding								
Next Auditable Entity								
Add								

- 1 = Very Low Exposure
- 2 = Moderately Low Exposure
- 3 = Neutral Rating
- 4 = Some Exposure



5 = High Exposure

Audit topics selected for review, depth, and breadth of coverage are dependent primarily on the resources made available to contractor Internal Audit, particularly the quantity and quality of manpower. Care should be exercised to achieve an optimum balance between the breadth and/or frequency of coverage in any one area and the number of areas to be audited. By employing the use of such a risk ranking process for audit selection, Internal Audit's decisions for audit coverage will be documented and supported.

## SAMPLE AUDIT PROGRAM FOR ALLOWABLE COSTS REVIEWS

### I. PURPOSE AND OBJECTIVE

The purpose of the cost allowability audit is to determine whether costs charged to Department of Energy (DOE or Department) contracts are allowable, allocable and reasonable per contract terms; applicable cost principles in the Federal Acquisition Regulation (FAR) or Office of Management and Budget's (OMB) Title 2 Code of Federal Regulations (2 CFR), as applicable, and Department of Energy Acquisition Regulation (DEAR); and Cost Accounting Standards (CAS) as implemented by the contract terms. Specific guidance covering the three criteria for allowability and example audit steps for select cost areas are included in Appendix A.

This program is intended for use by contractor Internal Audit. **The audit steps are general guidance and should be expanded or eliminated as necessary to fit the contractor's audit environment and risk assessment.** The program is intended to provide a logical sequence to the audit fieldwork and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and the audit's objectives for allowable costs reviews. It is expected that those portions of the audit that are covered in other audits will be referenced and incorporated in this review.

### II. AUDIT SCOPE

- A. This audit will be accomplished by:
1. Obtaining the criteria for determining the allowability of costs.
  2. Assessing internal controls designed to ensure that only allowable costs are claimed under the contract.
  3. Testing transactions to determine if unallowable costs were claimed.

### III. AUDIT STEPS

- A. Preliminary Steps
1. Follow local audit protocol for audit engagement notification.
  2. Evaluate operations to determine whether major changes have occurred in:
    - a. Direct/Indirect charging procedures and practices.
    - b. Management culture.
    - c. Organizational structure by comparing current organization charts and charts from the prior year.

- d. Business volume, employee count, and the ratio and number of direct and indirect employees.
  - e. Current internal control practices with regard to unallowable costs and the flow of transactions.
  - f. CAS Disclosure Statements, if applicable.
  - g. Direct and indirect labor accounts compared to prior year's budget for evidence of undisclosed changes in labor charging practices.
3. Perform the following cost statement (e.g., "Statement of Costs Incurred and Claimed" [SCIC]) analysis:
- a. Reconcile the amounts on the cost statement to the general ledger (GL), subsidiary ledger, or trial balance. Obtain explanations for significant differences. Costs claimed in excess of amounts recorded in the financial systems would be questioned as unsupported.
  - b. Verify the mathematical accuracy of the cost statement.
  - c. Determine whether adjustments were made to the claimed costs that are not reflected on the certified cost statement. Follow-up on the adjustments and determine whether costs should be questioned.
4. Analyze operating statement accounts by:
- a. Comparing the current GL or trial balance account balances (and if applicable, within pools and bases) to prior years to identify any changes in accounting practices or unexplained disproportionate changes in relative dollar value and obtain explanations from management.
  - b. Identifying unallowable costs for current and prior year.
  - c. Comparing the ratio of unallowable costs to total costs of related cost elements or groupings (travel, consultants, etc.) for the current and prior year, and obtaining explanations for significant changes.
5. Identify potential vulnerable areas from evaluating the following:
- a. Prior year audit files.
  - b. Board or senior management meeting minutes for major decisions that affect the organization and operations for the year(s) being audited.
  - c. Discussions with senior management/legal counsel to identify legal proceedings that could impact cost allowability.
  - d. Company Web site and annual report, employee publications, press releases, and such for potential audit issues.
6. Review areas covered under other audits by:

- a. Identifying audit issues from Department site offices, Office of Inspector General (OIG), external auditors, Defense Contract Audit Agency (DCAA), or internal auditors through discussions and reviews of audit reports that may affect the audited costs.
  - b. Identifying the floor checks or other labor audits covering the fiscal year (FY) and performed during the FY.
  - c. Identifying on-going and completed assist labor and subcontract audits pertaining to the FY being audited. Note any findings for follow-up. If needed, coordinate with the subcontract audit authority or contracting officer (CO) and request assist audits for labor, subcontract costs, and home office and other intermediate allocations.
  - d. Identifying other assignments such as operations/performance, information technology (IT), financial controls, and systems surveys that affect the scope of this audit.
  - e. Determining whether to rely on the work of others such as OIG, DCAA, or external auditors and documenting:
    - A copy of the report and/or written confirmation of the work performed.
    - The period and costs covered.
    - A summary of the result(s) of the audit(s) or engagement(s).
    - A statement of the degree of reliance placed on the work of others (a statement of the audit scope covered by this reliance).
7. Evaluate contract provisions.
- a. Look for indirect rate ceilings or cost categories that may not be billed directly on the contract(s). Note for comparison any unexplained changes in charging patterns identified during the preliminary steps.
  - b. Obtain and review the Department contract and appendices and prepare a listing of (i) expressly unallowable costs, (ii) costs with contractual limitations, which if exceeded, would be unallowable, and (iii) costs requiring Department approval.
8. Conclude on the review of preliminary steps to determine the issues (activities/actions) that have had, or may have had, an impact on cost allowability.

**B. Internal Controls**

Internal controls over major disbursement categories should be reviewed periodically, as applicable, to ascertain whether the system of controls established provides (i) reasonable assurance of efficiency and effectiveness of the

disbursement process; (ii) for reliable financial reporting; and (iii) that transactions and costs incurred and recorded comply with applicable laws and regulations. Internal controls coverage may be provided by separate audit(s) scheduled and conducted as part of the annual audit plan of Internal Audit.

The typical major disbursement categories are:

- Payroll
  - Accounts Payable (Purchasing)
  - Non-Purchase Order Areas (Procurement Cards, Check Requests, Special, Petty Cash, Other Process Specific)
  - Travel
1. Review the results from the review(s) of internal controls over major disbursement areas and determine the risk associated with claiming unallowable costs on the cost statement. Evaluate changes in internal controls over unallowable costs since the last audit. Assess whether an internal controls review over unallowable costs is needed to be done as part of this cost allowability audit, or whether it is sufficient to perform limited or concurrent transaction testing to support the auditor's assessment and understanding of the internal controls over unallowable costs.
  2. Obtain an understanding of the applicable internal controls over cost allowability in effect during the FY(s) being reviewed and document the policies, procedures, and systems for identifying costs as unallowable:
    - Document account names, numbers, descriptions, type of costs charged, and whether the account(s) are used to accumulate unallowable cost.
    - Determine what funding is used to pay for these identified unallowable costs.
    - Document the transaction flow for unallowable costs to determine if the contractor pays directly for the cost or if it is first paid through DOE's letter of credit.
  3. Determine which business systems, as defined by the DEAR, are required and have been reviewed and accepted by DOE. Determine the reasons for disapprovals of the systems.
  4. Document the conclusions reached on internal controls over unallowable costs and identify any internal control deficiencies that would impact cost allowability. Material internal controls weaknesses over unallowable costs should be reported.

C. Risk Assessment Determination

Based on steps performed at III.A and III.B (preliminary and internal controls), assess risk associated with specific GL accounts, group of accounts, or departments. Some areas are considered to have significant inherent risks and should be included annually.

If risk of an unallowable cost is assessed at maximum (i.e., the internal controls are non-existent or ineffective to prevent the contractor from claiming unallowable costs), the auditor needs to perform extensive testing of transactions in order to reach a conclusion on the allowability of cost.

Select expense accounts for transaction testing and the sampling methodology to be used. It is expected that a recognized statistical sampling methodology be used to sufficiently reach a conclusion on the allowability of costs and permit the projection of unallowable costs. Valid statistical results can best be achieved when applied to a homogeneous universe. For certain cost categories, a judgmental sampling methodology may be used. In those circumstances, the rationale for using judgmental sampling should be clearly documented in the auditor's workpapers.

Document the sampling technique, including confidence and precision level (if statistical), to be used on each account or group of accounts to obtain efficient use of resources.

D. Transaction Testing

Total costs incurred should be identified, analytically reviewed by transaction type or account/resource category and may be grouped into the following major disbursement categories:

- Payroll
- Accounts Payable (Purchasing)
- Non-Purchase Order Areas (Procurement Cards, Check Requests, Special Disbursements, Petty Cash, Other Process Specific)
- Travel

The major disbursement categories may be further segregated into specific categories as identified in Appendix A. The nature, amount, and extent of the transaction testing, as well as the sampling methodology used, should be based on the results of the Preliminary Steps, Internal Controls, and Risk Assessment Determination sections of the program (III.A through III.C). In addition to testing of identified high-risk area, some transaction testing should be performed annually in major disbursement categories where the auditor has determined that the risk of claiming unallowable costs is low. The additional testing should be done to validate the assessment that risk is low and controls are functioning as

intended. The nature, amount, and extent of additional transaction testing should be adjusted accordingly.

Appendix A provides guidance on attributes that should be evaluated when performing transaction testing. The Appendix A attributes listing is not intended to be all-inclusive and should be modified to fit the contractor's audit environment and risk assessment. Annual transaction testing should include tests of contractual provisions and limitations for unallowable cost being incurred and claimed.

E. Audit Completion

1. Follow local audit protocol for audit engagement completion.

APPENDIX AGUIDANCE FOR ALLOWABLE COSTS TRANSACTION TESTING

Appendix A is divided into two sections. Section I provides general guidance for the determination of the allowability of costs and is applicable to any cost selected for review. Section II describes transaction testing for 14 common cost areas in the disbursement processes and **should be modified to fit the contractor's audit environment and risk assessment.**

I. GENERAL GUIDANCE WHEN REVIEWING FOR ALLOWABILITY OF COSTS

The following 5 sections provide general guidance for reviewing any cost selected for determining cost allowability.

A. General

1. Was the cost for an actual item received or service rendered?
  - a. Review supporting documentation to conclude that the cost represents an item received or effort provided.
  - b. Review properly completed and approved vendor invoices, canceled checks, or other documentation to determine if the cost is supported.
  - c. For equipment, confirm that the item exists and review receiving report and equipment inventory record.
  - d. For material, review receiving report, bill of material, logs, quality assurance report, or stockroom records.
  - e. If sufficient documentation cannot be obtained to support a cost, interview personnel to the extent necessary to conclude that the cost was allowable.
  - f. If the auditor cannot be satisfied that the cost was incurred, the cost is considered to be unsupported and therefore unallowable.
2. Is the cost properly classified by expense category?
  - a. Determine if costs are identified and recorded in the appropriate expense category.
  - b. Identify if a portion of the expense should be separately categorized.
3. Are the dollar amounts accurate?
  - a. Recompute extensions, allocations, and formulas to determine if the amount of the cost is accurate.



- b. Determine if the vendor invoice rates agree with prices established in the purchase order.
4. Can the cost be traced to GL and subsidiary ledgers?
- a. Verify that the cost was properly recorded in the GL and any supporting subsidiary ledgers.
  - b. Verify that the cost was charged to the FY in which it was incurred.
5. Is the cost's treatment consistent with other similar transactions?
- a. Evaluate whether the cost was treated consistent with similar costs.
  - b. Evaluate if the cost was recorded against the same expense code and expense category (i.e., direct/indirect) as like costs.
6. Is the cost an accrual?
- a. Determine if accruals are based on supported estimates.
  - b. Determine whether estimates appear to be significantly overstated or understated to compensate for a year-end funding excess or shortfall.
  - c. Determine if any improper accruals impacted the allowability of costs claimed.

B. Applicability to the Contract

1. Does the cost have special terms and requirements per the contract?
- a. Refer to list identified at III.A.7.
  - b. Determine if the cost represents a cost that the contract defines as unallowable.
  - c. Determine if the cost complies with applicable contract ceilings and limitations.
  - d. Determine if prior CO approval was obtained or prior CO approval is required for this cost.
  - e. Determine whether the cost violates CO rulings, interpretations, or guidance.
2. Is the item or service related to the contract effort (i.e., allocable)?
- a. Evaluate whether the item received or service rendered generally appears to be related to the contract effort. Be alert to costs that should have been charged to the other activities outside the scope of the contract.

- b. Evaluate whether the item received or the service rendered was related to the account to which it was charged.
- c. Determine whether the cost duplicates the types of costs covered by a management allowance or fee arrangement.

C. FAR 31 – Cost Allowability (OMB Circular)

1. The following costs are expressly unallowable per FAR 31, however, the auditor must check with the FAR for additional information:
  - General Advertising/Public Relations
  - Alcoholic beverages
  - Bad Debts
  - Contingency Reserves
  - Contributions and Donations
  - Dividends or Other Profit Distributions
  - Excess Depreciation
  - Entertainment
  - Fines, Penalties, and Mischarging Costs
  - First-Class/Business Class Air Travel
  - Goodwill Amortization
  - Insurance for Catastrophic Losses
  - Interest and Related Taxes for Refinancing
  - Certain Legal Expenses
  - Lobbying Costs
  - Losses on Other Contracts
  - Organization Expenses and Related Taxes for Reorganizing
  - Certain Relocation
  - Certain Taxes for Federal Income and Excess Profits

D. Cost Accounting Standards Allocability

1. Does the accounting treatment comply with applicable CAS?
2. Ascertain whether the cost complies with the applicable CAS requirements.

E. Reasonableness

1. Is the cost reasonable per FAR 31.201-3, *Determining Reasonableness*?
  - a. Ascertain whether the cost exceeds that which would be incurred by a prudent person in the conduct of competitive business, or as ordinary and necessary for the conduct of business or the contract performance.
  - b. Determine if the cost followed generally accepted sound business practices, arm's-length bargaining, and Federal and state laws and regulations.

- c. Determine whether the costs comply with contract clauses and contractor's established policies and procedures.

## II. GUIDANCE FOR DETERMINING THE ALLOWABILITY OF COSTS IN SPECIFIC COST AREAS

The following 14 common cost areas are included in disbursement processes where unallowable costs may be claimed. The listing is not intended to be all-inclusive and should be modified to fit the contractor's audit environment and risk assessment. Attributes for each cost area is provided below for use when performing transaction testing of these areas. If it is determined that there is a high risk of incurring an unallowable cost in any of these areas, costs should be grouped into a homogeneous population for the appropriate sampling methodology and transaction testing:

- A. Travel Costs
- B. Relocation Cost
- C. Dues, Memberships, Conferences and Subscriptions
- D. Public Relations and Advertising Costs
- E. Payroll and Related Costs
- F. Employee Welfare and Morale Expenses
- G. Professional and Consultant Service Costs
- H. Subcontract Costs
- I. Purchased Labor
- J. Lobbying Costs
- K. Costs Related to Legal and Other Proceedings
- L. Procurement Card Purchase
- M. Accounts Payable Purchases
- N. Costs Transfers

The guidance below is applicable and unique to the type of expenses under review:

- A. Travel Costs
  1. Review travel policies and procedures.
  2. Determine if travel costs were computed according to the reimbursement rates and are properly authorized and incurred in accordance with the travel policies and procedures.
  3. Determine whether proper documentation exists per FAR 31.205-46(a)(7). Receipts and information should include date and place such as city, town, and/or county; purpose of the trip; and name of person on trip and that person's title or relationship to the contractor.
  4. Determine whether costs for lodging, meals, and incidental expenses are consistently followed and are allowable per rates established by Government travel regulations.

5. Ensure that airfare costs are limited to the lowest customary standard, coach, or equivalent airfare offered during normal business hours. Exceptions are allowed for special circumstances and are set forth in FAR 31.205-46(b).
6. Contractors may receive cash rebates or free tickets directly from airlines under a preferred vendor arrangement (not individual frequent flyer miles). Such rebates and refunds should be returned to the Government in the same manner in which the original costs were incurred, where practical and be consistent with the contractor's policies for treating refunds and credits.
7. If air travel is via private aircraft, determine whether it complies with FAR 31.205-46(c). Generally, travel via private aircraft in excess of the standard commercial airfare is unallowable unless an advance agreement has been executed.
8. Ensure that proper documentation is maintained for all travel via private aircraft per FAR 31.205-46(c)(3).
9. Review travel outside the continental United States or any travel of more than 21 consecutive days for documentation of proper authorization.

B. Relocation Costs

1. Review costs for compliance with standards in FAR:
  - a. FAR 31.205-35 defines relocation costs as costs incident to the permanent change of duty assignment for a period of 12 months or more of an existing employee or upon recruitment of a new employee.
  - b. FAR 31.205-46 defines rules for travel related to relocation for the employee and the employee's family to the new duty station and for house hunting trips.
  - c. FAR 31.205-46 allowable maximum Government travel regulation per diem rates for lodging, meals and incidental expenses apply to contractor employees while traveling for house hunting trips and travel to the new duty station. These criteria do not apply to temporary quarters allowances because the employee is not considered to be on official business travel while in temporary quarters.
  - d. Certain duty assignments, principally overseas locations, are accompanied by "location allowances." The location allowances represent compensation in addition to normal wages and salaries per FAR 31.205-6. Any travel costs to an overseas location should be considered travel costs in accordance with FAR 31.205-46.
2. Compare the cost to the list in FAR 31.205-35(a) and (c) for specifically allowable relocation costs.
3. Evaluate the contractor's policies and procedures and the employment agreements to determine reasonableness and compliance with FAR requirements.

4. Determine whether relocation costs are reasonable and allocable, and meet the four criteria listed in FAR 31.205-35(b).
5. Verify that a refund or credit was provided to the Government if the 12-month requirement of a permanent change of duty assignment agreement for reasons within the employee's control requires was not met per FAR 31.205-35(d) except as waived by FAR 31.205-35(f)(4).

C. Dues, Memberships, Conferences, and Subscriptions

1. Review costs for compliance with standards in FAR:
  - a. FAR 31.205-43 generally allows dues, memberships, conferences, and subscriptions where the primary purpose is the dissemination of trade, business, technical or professional information, or the stimulation of production or improved productivity.
  - b. FAR 31.205-43 makes the following type of professional and technical activity costs expressly allowable:
    - Organizing, setting up, and sponsoring the technical and professional meetings, symposia, seminars, etc., including rental of meeting facilities, transportation, subsistence, and incidental costs.
    - Attending the meetings by contractor employees, including travel costs per FAR 31.205-46.
    - Attending the meetings by individuals, who are not contractor employees, provided the costs are reimbursed to them by their own employer and their attendance is essential to achieve the purpose of the meetings.
2. Ensure that costs of memberships in civic and community and lobbying organizations are unallowable.
3. Determine whether the minimum fee for membership in any university's industrial liaison program is reasonable and supported by evidence of bona fide services available or rendered. Under these programs, contractors are usually entitled to the use of university facilities, consultations with faculty members, copies of research reports, attendance at symposiums, and possibly other benefits.
4. Review the primary mission of the organization receiving the payments or benefits of membership fees, association dues, or the costs of donated time or materials from the contractor. Organizations generally fall into the following categories based on their mission:
  - Bona Fide Trade or Professional Organizations – Organizations formed for the basic purpose of providing technical services to member contractors.

- Trade or Nonprofit Organizations Partially Engaged in Lobbying or Charitable Activities – The costs of membership are partially unallowable to the extent such payments are for the portion that is for lobbying or charitable activities.
  - Organizations Dedicated to Lobbying or Charitable Activities – Costs for memberships in these organizations are unallowable per FAR 31.205-8 and FAR 31.205-22.
5. Ensure that contributions related to dues and subscription accounts are excluded from claimed costs. Professional organizations often include a suggested voluntary contribution as part of the membership dues. The amount in excess of the value established is an expressly unallowable contribution under FAR 31.205-8.
  6. Determination of allowability requires knowledge concerning the purpose and nature of activity at the meeting or conference. Review expenses to determine whether the contractor maintains adequate records supplying such information on properly prepared travel vouchers or expense records supported by copies of paid invoices, receipts, and/or charge slips.
  7. Review costs to determine whether costs are for guest expenses for meals or other incidentals applicable to Federal employees. These costs should normally be questioned as unnecessary and hence unreasonable costs, except under limited circumstances. Federal employees are prohibited from accepting gratuities by Executive Order 11222 of 1965, Title 5 CFR 2635, and various departmental implementing directives.
  8. Determine whether expenses associated with a particular meeting or conference represent an allowable business expense under FAR 31.205-43(c) or unallowable social activity under FAR 31.205-14, *Entertainment Costs*, and should be made on a case-by-case basis, based on all pertinent facts. FAR 31.205-43(c)(3) disallows costs associated with the spouse of an attendee because the spouse's attendance is not essential to achieve the purpose of the meeting.
  9. For individuals on official travel, assure the meal expense is not included in both the claimed travel costs and subsistence costs included as part of organizing the meeting.
  10. For individuals not on official travel, assure that any meal expense is an integral part of the meeting as described in FAR 31.205-43(c), necessary for the continuation of official business during the meal period, and not a social function.

D. Public Relations and Advertising Costs

1. Review costs for compliance with standards in FAR:
  - a. FAR 31.205-1(a) defines public relations as all functions and activities dedicated to: (i) maintaining, protecting and enhancing the image of a concern or its products; or (ii) maintaining or

- promoting reciprocal understanding and favorable relations with the public at large, or any segment of the public. Public relations activities include areas such as advertising and customer relations.
- b. FAR 31.205-1(b) defines advertising as the use of media to promote the sale of products or services and to accomplish the activities referred to in FAR 31.205-1(d).
  - c. FAR 31.205-1(d), (e), and (f) address the allowability of public relations and advertising costs. All advertising costs other than those specified in FAR 31.205-1(d) are unallowable.
  - d. FAR 31.205-34 limits allowable advertising costs for recruitment.
  - e. FAR 31.205-1(e)(3) makes costs for participation in community service activities such as blood bank drives, charity drives, savings bond drives, and disaster assistance allowable provided that the activity does not materially affect an employee's other regular duties and responsibilities.
  - f. FAR 31.204 prevents contractors from successfully claiming unallowable public relations costs under more favorable and broader cost principle coverage such as unallowable costs of ceremonies per FAR 31.205-1(f)(4) claimed as employee morale and welfare under FAR 31.205-13.
2. Determine whether costs are allowable public relations costs such as cost incurred for (i) responding to inquiries on company policies and activities; (ii) communicating with the public, press, stockholders, creditors, and customers; and (iii) conducting general liaison with news media and Government public relations officers.
  3. Costs of plant tours and open houses are allowable; however, ensure that promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities are not claimed.
  4. Ensure that costs not specifically identified as public relations cost such as materials and services found in the following cost categories are reviewed as public relations costs per FAR 31.205-1:
    - Advertising Costs
    - Compensation for Personal Services
    - Contributions and Donations
    - Employee Morale, Health, Welfare and Food Service and Dormitory Costs and Credits
    - Entertainment Costs
    - Labor Relations Costs
    - Other Business Expenses
    - Professional and Consultant Service Costs-Legal, Accounting, Engineering and Other
    - Selling Costs
    - Trade, Business, Technical and Professional Activity Costs

5. When reviewing the different categories of costs, the auditors should consider major factors related to the costs such as the nature of the service rendered, the function performed, the propriety of the base of allocation, and the basic consideration of reasonableness.
6. Determine whether costs fall into one of the categories of public relations costs claimed by a contractor for the preparation and printing of such items as plant newspapers and magazines, recruitment pamphlets, technical brochures, and contractor and product capability promotional items. Audits of claimed publications costs should be based on an appropriate examination of the contractor's policies and procedures. There are five broad categories into which most publications may be grouped:
  - Employee Welfare and Industrial Relations – The most common publications of this type are regularly issued newspapers or magazines.
  - Professional and Technical Articles – These publications are disseminated to a professional or technical type audience and generally take the form of dissertations on technical subjects that are related to the contractor's products or activities.
  - Selling, Marketing, and Advertising – In those instances where the material provides little or no technical assistance to the recipient and is distributed to all customers and potential customers, the cost should be treated as advertising (FAR 31.205-1) or selling costs (FAR 31.205-38).
  - Contractor and Product Capability – Promotional items differ from normal selling, marketing and advertising publications in that they stress the superior capabilities of the contractor's facilities and/or personnel in research and/or development of new products.
  - Public Relations – This category includes pictures, decals and promotional material that emphasize the contractor's accomplishments in producing equipment or providing services.
7. Determine whether total public relations expenditures are reasonable, especially when there have been significant increases relative to prior years.

E. Payroll and Related Costs

1. Determine whether executive compensation costs are claimed in accordance with ranges established by contract terms or FAR 31.205-6 and the Office of Federal Procurement Policy (OFPP).
2. Review for employee(s) receiving pay over maximum salary range of the employee's grade range.
3. Review time sheets, payroll, personnel, and/or other records to determine if an employee was a real employee who worked on the contract effort.



4. Determine if overtime and associated premium hours have been approved, if required by the contract terms.
5. Determine if payroll costs were computed as reported on the timesheet and the pay rates identified in the personnel records.

F. Employee Welfare and Morale Expense

1. Determine if recreation program and exercise/wellness facility are available to all employees.
2. Determine if the Employee Recognition/Service Awards cost complies with the contract and the contractor's established policies and procedures.
3. Determine whether expenses and income generated by employee welfare and morale activities comply with FAR 31.205-13. If employee morale expenses fall into the category of entertainment then the expenses are unallowable per FAR 31.205-14.
4. Determine whether the cost of operating the cafeteria results in a break even scenario. A loss may be allowable, provided the contractor can demonstrate that unusual circumstances exist such that even with efficient management, operating the service on a breakeven basis would require charging inordinately high prices, or prices higher than those charged by commercial establishments.

G. Professional and Consultant Service Costs

1. Obtain vendor listing and 1099-Misc. forms and review for possible consultants not included on the listing.
2. Analyze consultants' agreements, work products, and related records for sensitive consultants such as i) lobbyists; ii) sales/marketing; iii) management services (excluding certified public accounting (CPA) firms); iv) legal; v) technical/engineering; and vi) accounting, CPA firms, actuary, and insurance.
3. Determine whether the activity engaged in by the consultant is strictly unallowable in accordance with the contract and applicable FAR and DEAR provisions.
4. If the review of agreements and work products fails to establish a logical link to activity that benefits either the business as a whole or Government contracts or programs in particular, then the cost and related consultant expenses should be questioned.
5. If the nature of the consulting service appears to be allowable and allocable, work products should be reviewed for the reasonableness of the total costs charged.
6. Trace selected consultant costs through the purchasing system to determine that procedures have been followed.

#### H. Subcontract Costs

1. Determine that payment is being made provisionally to ensure that the amount paid can be adjusted for the results of a future audit, and request or perform the audit.
2. Determine if subcontract charges were based on the subcontract's billing provisions.

#### I. Purchased Labor

1. Review the contractor's policy, with emphasis on the criteria used in determining whether personnel should be obtained from outside sources instead of direct hiring.
2. Analyze the purchased labor during the current or most recently completed FY, whichever provides sufficient information, to:
  - Determine the number of purchased labor personnel and the duration of the engagement.
  - Compare the number of employees on the contractor's payroll (in each classification of purchased labor involved) with the number of equivalent personnel obtained from outside sources.
  - Compare the cost per staff-year with the contractor's comparable personnel.
  - Determine whether the contractor's practices are equitable with respect to the use of purchased labor compared to the contract mix.
3. Determine whether the use of purchased labor results in additional costs that are reasonable, necessary, and allocable to contracts.
4. Verify that fringe benefits and other employee related costs are not allocated to purchased labor costs. Such costs are generally paid by the entity providing personnel performing the effort.
5. Verify that indirect costs are allocated to purchased labor in a reasonable proportion to the causal or beneficial relationship of the pooled costs to cost objectives. Purchased labor must share in an allocation of indirect expenses such as supervision and occupancy costs, where there is a causal or beneficial relationship, and the allocation method must be consistent with the contractor's disclosed accounting practices.

#### J. Lobbying Costs

1. Identify whether contractor has a Washington DC area office and the purpose of the office. Review costs to determine allowability.
2. Determine whether the cost was incurred to influence elections, public votes on issues, political parties, and legislation per FAR 31.205-22. Cost incurred to induce or tend to induce, either directly or indirectly, executive

branch employees to give consideration or to act regarding a Government contract on any basis other than the merits of the matter is unallowable.

K. Costs Related to Legal and Other Proceedings

1. Use the following guidance on the regulatory history for FAR 31.205-47 to consider applying the cost principle to specific cases:
  - The Government should not pay for wrongdoing, the defense of wrongdoing, or the results or consequences of wrongdoing by contractors.
  - The Government should not encourage litigation by contractors.
  - Government contractors should not be put in a better position than contractors in the commercial area.
  - The Government should not discourage contractors from enforcing the Government's rights and protecting the Government's interests.
2. Determine whether costs are allowable legal costs per the following categories:
  - Reasonable costs associated with routine proceedings, not specifically addressed in the FAR cost principle.
  - In-house legal staff handles routine inquiries from Government agencies such as DCAA.
  - Contract terms.
  - CO directed.
3. Determine whether costs are subject to ceilings defined in FAR 31.205-47.
4. Determine whether legal costs under review are unallowable based on the outcome of the proceedings:
  - In a criminal proceeding, a conviction.
  - In a civil or administrative proceeding (including a qui tam proceeding) involving an allegation of fraud or similar misconduct, a finding of liability.
  - In a civil or administrative proceeding not involving an allegation of fraud or similar misconduct, an assessment of a monetary penalty.
  - In a proceeding held by an appropriate official of an executive agency for debarment or suspension of the contractor; rescission or voiding of a contract; or termination of a contract for default because of violation of or noncompliance with a law or regulation, a final decision unfavorable to the contractor.
  - In any proceeding shown above which led to a settlement by consent or compromise.

5. Determine whether legal costs, unallowable regardless of the outcome, include:
  - Defense or prosecution of claims or appeals against the Federal government (FAR 31.205-47(f)(1)).
  - Organization, reorganization, mergers, or acquisitions, or resistance to merger or acquisition (FAR 31.205-47(f)(2) and FAR 31.205-27).
  - Defense of antitrust suits (FAR 31.205-47(f)(3)).
  - Defense or prosecution of lawsuits or appeals between contractors arising from such agreements as teaming arrangement, dual sourcing, co-production, or similar programs (FAR 31.205-47(f)(5)).
  - Defense against stockholder suits that are related to contractor wrongdoing such as intentional harm to other persons, and instances where there has been a reckless disregard for the harmful consequences of an action.
  - Patent infringement proceedings if not required by the contract (FAR 31.205-30, FAR 31.205-47(f)(6)).
  - Defense against contractor misconduct addressed in another proceeding whose outcome determined the costs to be unallowable.
  - Bid protest costs and costs of defending against protests are expressly unallowable under FAR 31.205-47(f)(8) for contracts awarded on or after October 7, 1996 unless per written directions from the CO.
6. Review legal proceeding costs to ensure that the contractor properly segregated costs for each proceeding regardless of the outcome that is anticipated.
7. If the outcome of a proceeding described in FAR 31.205-47(b) determines costs to be allowable, review total costs for reasonableness.

L. Procurement Card Purchase

1. Select a sample from the procurement card universe, excluding those accounts of costs already selected for specific review.
2. Review costs for proper documentation and allowability per FAR.
3. Pay close attention to items of personal nature and scrutinize these costs.
4. Ensure that purchases are made in accordance with the policies and procedures over purchase card transactions.

M. Accounts Payable Purchases

1. Select a sample from the accounts payable universe, excluding those accounts of costs already selected for specific review.
2. Review costs for proper documentation and allowability per FAR.
3. Refer to specific areas in Sections A to K related to types of costs in the sample for additional guidance to items required for the review.

N. Transferred Cost

1. Obtain an understanding of the transfer process.
2. Select a sample from the account(s) for cost transfers in and out (inter/intra organizational transfers).
3. Review costs for proper documentation and allowability per FAR.
4. Ensure that transferred costs are allowable and do not duplicate the types of costs that are covered by any contractual management allowance or fee arrangements.
5. Incorporate results of Home Office reviews from other audit(s).

## **CHAPTER 15**

### **AUDIT COVERAGE OF COSTS INCURRED AND CLAIMED**

#### **A. SCOPE OF CHAPTER**

This chapter sets forth general guidelines for satisfying the OIG's responsibility for reviewing the allowability of costs incurred and claimed by the Department's major contractors for which it is the cognizant audit organization as arranged for in a Memorandum of Understanding with the DCAA or by other agreement.

#### **B. BACKGROUND**

Since its inception, the Department has entered into special relationships with contractors for managing and operating Department-owned or Department-controlled laboratories, facilities and resources. These relationships were once limited to a single type of contract called a management and operating (M&O) contract that was based on a unique set of contract clauses found in the Department of Energy Acquisition Regulation (DEAR) Subpart 970, *DOE Management and Operating Contracts*, pursuant to the Federal Acquisition Regulation Subpart 17.6, *Management and Operating Contracts*. Over time, the Department has awarded other contract types to run its major sites, facilities or work programs (e.g., site and facility clean up contracts). Although the name of the contract type may differ, these other contracts possess characteristics of M&O contracts and similarly conform when the aforementioned DEAR clauses appear therein. Characteristics of M&O type contracts are that contractors maintain management controls in accounting for all funds advanced by the Department, safeguard assets in their care, and claim only allowable costs.

Financing and accounting are unique features of M&O type contracts. The Department pre-finances costs through letters of credit or cash advances and the contractor is required to maintain a separate and distinct system of accounts, records, documents, and other evidence demonstrating support for all allowable costs incurred, revenues or other credits. The majority are integrated contractors that are required to maintain accounts that are integrated with Department's accounting system, through the use of reciprocal accounts, and to prepare financial reports in accordance with formats prescribed by the Department. There are also a few non-integrated M&O type contractors that have similar accounting and reporting requirements to link their accounting records with the Department's accounting system.

Payment of allowable costs is another unique feature of M&O type contracts. The integrated and the non-integrated contractors alike prepare a cost statement (e.g., "Statement of Costs Incurred and Claimed" [SCIC]) to account for all financial activity for the fiscal year. The cost statement serves as the contractor's claim and certification that the costs, to the best of the Certifying Official's knowledge and belief, have been incurred and are allowable under the contract. These cost statements also require audit and approval by Department representatives. The Department's approval of the cost statements constitutes the Department's acknowledgment that the net costs incurred are believed to be allowable under the contract and that those costs have been recorded in the accounts maintained by the contractor in accordance with Departmental accounting policies. For integrated contractors, this certification and approval process is governed by the Department's Financial Management Handbook (Handbook), in Chapter 23,

## CHAPTER 15 -- AUDIT COVERAGE OF COSTS INCURRED AND CLAIMED

*Statement of Costs Incurred and Claimed.* The process for non-integrated contractors is essentially the same but governed by specific contract clauses.

To assure that only allowable costs are claimed by major contractors and to make efficient use of available audit resources, the OIG, the Department's Chief Financial Officer (CFO) and Office of Procurement and Assistance Management, and the major contractors implemented the Cooperative Audit Strategy, which places reliance on contractor Internal Audit to provide audit coverage on incurred costs. Consistent with the Cooperative Audit Strategy and required by contracts, major contractors are required to maintain Internal Audit with responsibility for conducting audits, including audits on the allowability of incurred costs. Furthermore, the major contractors are required to conduct or arrange for audits of subcontractors when costs incurred are a factor in determining the amount payable.

### **C. APPROACH FOR COST STATEMENT ASSESSMENTS**

As the cognizant auditor for the Department's major contractors, the OA overall approach is to review the adequacy of audit coverage for costs claimed on the cost statement. As part of the annual planning process described in Chapter 5, the OA will select the cost statements to review each year using a risk-based methodology. Major contractors will be reviewed if the overall risk was assessed as high after evaluating general and specific factors such as: prior year findings, amount of incurred costs reimbursed by the Department, and implementation or revisions to major business systems. If not considered high risk, the contractors will be assessed at least once every 4 years. See Exhibit A for more details on the risk-based methodology for selecting costs statements for inclusion in annual audit planning.

Consistent with the Cooperative Audit Strategy and to make efficient use of audit resources, OA assessments involve review of: 1) the cost allowability audit work conducted by Internal Audit; 2) the contractor's audit coverage of its subcontractors; and, 3) resolution of questioned costs and control weaknesses impacting allowable costs that were identified in prior audits and reviews. Because cost statement work is not an audit, it follows GAGAS for review-level attestation engagements.

Accordingly, the objectives of a cost statement assessment will be to determine, for the period(s) covered by the cost statement(s), whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- The contractor conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and,
- Questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits and reviews have been adequately resolved.

A more detailed discussion of the OA methodology for cost statement assessments is contained in Exhibit B of this chapter.

### **RISK-BASED METHODOLOGY FOR COST STATEMENT SELECTION**

Concurrent with the OIG's annual risk assessment process, the OA will conduct a cost statement risk assessment for each major contractor over which the OIG has audit cognizance. The general process will consist of the following three steps and consider the general and specific risk factors identified below that focus on highest vulnerabilities to determine the frequency of OIG cost statement (e.g., SCIC) reviews.



- Repeat findings from previous cost statement (e.g., SCIC) coverage and unresolved questioned costs:
  - Contractor non-compliance with auditing standards
  - Lack of subcontract cost audits/reviews
  - Issues complying with Cooperative Audit Strategy requirements
- Indications of new material internal control weaknesses
- Refusal of field CFOs or other representatives to sign the cost statement (e.g., SCIC)
- Size of major contractor's annual incurred costs reimbursed by the Department
- Major contractor's implementation of new or revised business systems



- Change of major contractor

**METHODOLOGY FOR COST STATEMENT ASSESSMENTS**

Exhibit B provides the OA methodology for its assessment of cost statements (e.g., SCIC) as the cognizant audit organization for the Department's major contractors. It is important to note that this assessment is not an audit. It follows GAGAS for review-level attestation engagements. Although not an audit, it will follow the general audit policies and procedures such as those for assigning staff, issuing notification letters, conducting entrance conferences, and tracking milestones. The assessment will also follow the general fieldwork, documentation, advanced audit techniques, and quality assurance policies described in other chapters. However, because mandated by the Department, the cost statement assessment will not be divided into a survey and verification phase; therefore, no EOS decision is required.

To reiterate, consistent with the Cooperative Audit Strategy and to make efficient use of audit resources, the OAI overall approach is to review the adequacy of audit coverage for costs claimed on the cost statement to determine if it can be relied on. The methodology will include five basic steps:

1. Assessing allowable cost audit work conducted by Internal Audit;
2. Reviewing the subcontracts audits conducted as warranted;
3. Evaluating resolution of questioned costs and control weaknesses impacting cost allowability that were identified in prior audits and reviews;
4. Signing the cost statements based on the previous three steps; and
5. Reporting the results of the assessment.

The OA program for cost statement assessments is contained in the TeamMate EWP Library – SCIC Template.

Further discussion on each of that above five areas follows:

1. Internal Audit. The review will assess the allowable cost audit work conducted by Internal Audit. The scope of the review will include Internal Audit's annual audit(s) of allowable cost for the periods covered by the cost statement(s) and any other audits that provided coverage of allowable costs and were considered by Internal Audit in its allowable cost risk assessment. The assessment will include an evaluation of Internal Audit's qualifications, independence, workpaper documentation, risk assessments, sampling methodologies, and recent peer review results for compliance with professional standards, namely GAGAS or the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (IIA Standards). Additionally, audits of subcontractors conducted by Internal Audit will also be included in this review.

It is OA policy that if Internal Audit deviates significantly from the requirements described in the Cooperative Audit Strategy or does not comply with the audit requirements of its contract, OA will consider it to be a material internal control weakness. OA will not assume responsibility for performing the allowable cost audit if Internal Audit did not provide sufficient audit coverage of allowable costs, or when limited or no reliance can be placed on Internal Audit's cost allowability work. In these circumstances, it will be the responsibility of the responsible contracting officer to address the contractor's noncompliance. The material weakness identified will be described in the cost statement assessment report, and the responsible OA TL will not sign the cost statement. In addition, if Internal Audit's work does not meet professional

standards and cannot be relied upon, the OA auditor will consider questioning the cost of Internal Audit.

When no exception is taken to Internal Audit's allowable cost audit work, the OA auditor will provide a negative assurance in the cost statement assessment report that nothing came to the auditor's attention to indicate that Internal Audit failed to meet applicable professional standards and could not be relied on.

2. Subcontract Costs. At most major contractors, costs claimed on the cost statement include subcontract costs which, in some cases, can be significant. Generally, the Department's contracts require the contractor to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. Thus, the contractor must have policies, procedures, and practices for identifying subcontracts requiring audit and arranging for them. If Internal Audit conducted subcontract audits, the OA auditor will evaluate this audit work utilizing the "Subcontract Costs" section of the SCIC Template in the TeamMate EWP Library. If the contractor had another internal activity conduct subcontract audits, such as an audit group in its procurement function, the cost statement assessment will evaluate the internal activity's qualifications, independence, workpaper documentation, risk assessment, sampling methodology, recent peer review results, and compliance with professional standards. If the contractor relies on an external audit organization, such as DCAA, for subcontract audits, the cost statement assessment will evaluate whether arrangements have been made to ensure that subcontract costs will be audited and the audit organization complies with applicable professional auditing standards.

If the contractor has not audited or arranged for audits of subcontract costs requiring audit, the OA auditor will report the unaudited subcontract costs as "unresolved costs pending audit" and consider the issue as an internal control weakness. The materiality of the control weakness will depend on the significance of the unresolved costs.

3. Resolution of Questioned Costs and Internal Control Weaknesses. In order to ensure that only allowable costs were claimed on the cost statement, any questioned costs or internal control weaknesses impacting allowable costs that were identified in prior audits or reviews should be resolved. Resolution would normally include correction of control weaknesses, contracting officer determinations for questioned costs, and recovery of costs determined to be unallowable. The cost statement assessment will include review of the resolution of the results of prior audits and reviews that covered cost allowability, internal controls relevant to cost allowability, and subcontract costs. Prior audits and reviews would be those performed by the OIG (e.g., reviews of compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*), Internal Audit, the Department's field offices, DCAA, or other audit or review organizations since the last OA cost statement assessment. The cost statement assessment will report questioned costs and internal control weaknesses relevant to cost allowability that have not been appropriately resolved. The materiality of a control weakness identified will depend on the significance of the impact that it could have on cost allowability.

4. Signing the Cost Statement. The responsible OA TL will sign the cost statement(s) only if no material internal control weaknesses were identified by the assessment. As described in number 1 above, if Internal Audit does not conduct a sufficient allowable cost audit or its allowable cost work cannot be relied upon, OA will consider it to be a material internal control

weakness. Similarly, failure by the contractor to audit or arrange for audits of subcontractor costs could result in a material weakness if unaudited subcontract costs represent a significant portion of costs claimed in the cost statement. Accordingly, the OA TL will not sign the cost statement. Further, the OA TL will not sign the cost statement until it has been signed by the contractor and Department officials as required by the Handbook. In signing the cost statement, the OA TL affirms the amount of questioned costs, if any, disclosed in the cost statement assessment. In addition to signing the cost statement, the OA TL should ensure that it includes the qualifier "subject to future audit."

When a material internal control weakness existed that caused the OA TL not to sign the cost statement, the OA TL can subsequently sign the cost statement when adequate corrective actions are implemented. For example, if the cost statement was not signed because Internal Audit did not conduct allowable cost audits, the OA TL may sign the cost statement when reliable audits are subsequently performed.

5. Reporting Assessment Results. Generally, the results of the cost statement assessment will be included in an assessment report following the reporting guidelines in GAGAS for review-level attestation engagements. If the cost statement assessment report contained no recommendations, an OAI letter report format will be used. If the cost statement assessment report contains findings and recommendations, an OAI management control report format will be used. See OAI report and editorial guidance for examples of letter and management control cost statement assessment reports.

The cost statement (s) for the period(s) covered in the assessment will be included in the report, regardless of whether OA TL signed the cost statement (s). In addition, the cost statement should be footnoted at the OIG signature block, even if unsigned, in order to refer the reader to the assessment report that accompanied the cost statement. If an unsigned cost statement is subsequently signed, a signed copy should be forwarded to the report's addressee and to the field CFO.