



Department of Energy
Washington, DC 20585

September 20, 2012

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

Dear Mr. Carroll:

We have reviewed the system of quality control for the U.S. Agency for International Development (USAID), Office of Inspector General (OIG), Office of Audit, that was in effect for the period ended March 31, 2012, and have issued our report thereon dated September 20, 2012, in which the Office of Audit received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described in this letter were not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding 1. Fieldwork Standards - Documentation of Planning

Government Auditing Standards (GAS) and the Office of Audit's policies and procedures outlined in its *OIG/Audit Procedures Handbook (Handbook)* require that if information comes to the auditors' attention indicating fraud may have occurred that is significant within the context of the audit objectives, additional audit procedures should be developed, as necessary, to determine whether fraud has occurred and its effect on the audit findings [GAS 7.32 and Handbook Part II, Chapter 2, Section D]. In the *Audit of USAID/Afghanistan's Afghanistan Stabilization Initiative for the Southern Region*, an allegation was received from the USAID-OIG Office of Investigations. However, we could find no additional audit procedures or evidence documenting resolution of the allegation.

We note that a similar deficiency was reported in the Office of Audit's internal Quality Assurance Review Report from April 2011. That report noted that one audit team had not documented additional steps performed in response to information gathered from the USAID-OIG Office of Investigations.

GAS and the Handbook also require the audit team to design procedures to provide reasonable assurance of detecting fraud [GAS 7.31 and Handbook Part II, Chapter 2, Section C]. However, although fraud risk was identified in the *Audit of USAID/Afghanistan's Support to The Electoral Process (STEP) and Support for Increased Electoral Participation (IEP) in Afghanistan Programs*, and the *Audit of USAID/Pakistan's Management of Pre-Award Assessments*, we could not find the



requisite procedures. Specifically, although the planning procedure summary or risk assessment stated that such steps would be developed and included elsewhere in the work papers, we could not locate those steps.

Recommendation – The Office of Audit should ensure that auditing standards and its policies and procedures are followed to fully document the planning and testing of fraud-related steps and resolution of allegations.

Views of Responsible Official – The Deputy Assistant Inspector General for Audit concurred with the recommendation. By the end of Fiscal Year (FY) 2013, an internal review to address the finding will be performed and training in Handbook requirements, emphasizing the issues in the finding, will be provided to Washington, DC, and overseas staff. In addition, by October 15, 2012, a memo will be sent to all staff reminding them of Handbook requirements to document the planning and testing of fraud-related steps and resolution of allegations.

Finding 2. Fieldwork Standards - Supervisory Review of Work Papers

GAS and the Handbook require adequate supervision of audit work to provide sufficient guidance and direction to staff assigned to the audit to address the objectives and follow applicable standards, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training [GAS 7.53 and Handbook Part II, Chapter 3, Section C and Part II, Chapter 5, Section G]. However, in the *Review of USAID/Afghanistan's Afghan Civilian Assistance Program*, all of the work papers were reviewed and signed by the supervisor just days before the final report was issued. Also, although some actions such as the entrance conference took place months before the conclusion of the audit, the associated work papers were not prepared and reviewed until shortly before the conclusion of the audit.

GAS and the Handbook likewise require evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions and recommendations contained in the audit report [GAS 7.80c and Handbook Part II, Chapter 5, Section C]. However, in the *Audit of the USAID/West Bank and Gaza's Palestinian Health Sector Reform and Development Project*, over 80 percent of the work papers were signed by the supervisory reviewer after the final report was issued. Further, many work papers had not been reviewed more than 6 months after preparation.

We note that a similar deficiency was reported in the Office of Audit's internal Quality Assurance Review Report from April 2011. The report noted that supervisory review of the planning steps in one USAID-OIG audit did not occur until after the final report was issued.

Recommendation – The Office of Audit should re-emphasize the importance of complying with auditing standards relating to adequacy and documentation of supervisory review.

Views of Responsible Official – The Deputy Assistant Inspector General for Audit concurred with the recommendation. By the end of FY 2013, training in Handbook requirements, emphasizing the issues in the finding, will be provided to Washington, DC, and overseas staff. In addition, by October 15, 2012, a memo will be sent to all staff re-emphasizing the importance of complying with auditing standards relating to adequacy and documentation of supervisory review.

Finding 3. Field Work Standards: Evidence and Audit Documentation; and Reporting Standards: Report Content

GAS and the Handbook require the audit team to choose a sampling method appropriate to answering the audit objectives; to describe the sample design; and to state why the design was chosen, including whether the results can be projected to the intended population [GAS 7.63, GAS 8.13; Handbook Part II, Chapter 1, Section N, and Handbook Part II, Chapter 6, Section E]. However, we found that three audits did not contain all required sampling-related information in the work papers and the final report. These audits were the *Audit of USAID/Lebanon's Landmines and War Victims Program*; *Audit of USAID/El Salvador's Education Activities*; and *Audit of USAID/West Bank and Gaza's Palestinian Health Sector Reform and Development Project*.

We note that the 2009 External Peer Review of USAID-OIG found three audits with deficiencies in documenting and reporting the sampling methodology. In response to this finding, USAID-OIG took the following corrective actions: (1) a policy memo was issued in October 2009 directing the sampling methodology to be appropriately documented in the TeamMate project file and disclosed in the audit report; (2) the Handbook was revised to strengthen the identification of deficiencies in reporting the sampling methodology; and, (3) training was provided in February 2010 to employees on these matters.

Further, GAS and the Handbook state that auditors should document the objectives, scope and methodology of the audit [GAS 7.80 and Handbook Part II, Chapter 5, Section D]. Although explanations of these elements were sometimes found within other parts of the procedure summaries, the specific TeamMate procedure summary tabs designed for that information often did not contain that information or were only partially complete in 12 of the 14 audits reviewed. Also, in some cases those tabs made reference to more detailed information elsewhere in the work papers but the information was not at the stated location.

Recommendation – The Office of Audit should ensure that auditors: (1) fully document and report the rationale for selection and application of sampling techniques; and, (2) properly utilize procedure summaries in TeamMate, as primary work papers, for documenting audit work.

Views of Responsible Official – The Deputy Assistant Inspector General for Audit concurred with the recommendation. By the end of FY 2013, an internal review to address the finding will be performed and training in Handbook requirements,

emphasizing the issues in the finding, will be provided to Washington, DC, and overseas staff. In addition, by October 15, 2012, a memo will be sent to all staff reminding them to fully document and report the rationale for their sampling techniques and to properly utilize TeamMate procedure summaries.

Sincerely,

Gregory H. Friedman
Inspector General