



Department of Energy
Washington, DC 20585

December 29, 2006

The Honorable Donald Gambatesa
Inspector General
U.S. Agency for International Development
1300 Pennsylvania Avenue N.W.
Washington, D.C. 20523

Dear Mr. Gambatesa:

Attached for your information and use is the report detailing the results of our External Quality Control Review of the U.S. Agency for International Development's Inspector General Audit Organization. The report includes your response and also incorporates our position in relevant sections.

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


Gregory H. Friedman
Inspector General

Attachment





Department of Energy
Washington, DC 20585

December 29, 2006

To Donald Gambatesa, Inspector General
U.S. Agency for International Development

We have reviewed the system of quality control for the audit function of the U.S. Agency for International Development (USAID) Office of Inspector General (OIG) in effect for the year ended March 31, 2006. A system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system and compliance with it, in all material respects, are the responsibility of USAID OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with, to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

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

In our opinion, the system of quality control for the audit function of the USAID OIG in effect for the year ended March 31, 2006, was designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization, and was complied with during the year ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.



Likewise, we observed numerous positive audit practices in the USAID OIG audit organization. Most importantly, the audit staff showed a high level of professionalism and dedication while, at times, assigned to dangerous and challenging working conditions. The audit staff displayed a thorough knowledge during discussions with us concerning the audits we reviewed (and USAID missions under their review) and the audit organization's policies and procedures.

We also noted noteworthy practices and controls instituted to help ensure audits were performed in accordance with professional standards. The OIG Handbook is detailed and comprehensive. The internal quality assurance reports we reviewed were insightful and contained in-depth coverage of the organizational element assessed. Although policies, procedures, and practices are generally adequate to ensure compliance with auditing standards, we identified several findings and recommendations that warrant your attention though they did not impact our opinion. These findings and recommendations appear as Exhibit A, along with a synopsis of your comments, which are included in their entirety as Exhibit B. In addition, the review scope and methodology are described in Exhibit C.

We appreciate the time, effort, and professionalism that the USAID staff in Washington, DC and abroad provided during our review.



Gregory H. Friedman
Inspector General

Findings and Recommendations

Finding 1. Quality Control – Referencing Documentation

Audit organizations must ensure that all facts and data presented in audit reports are accurate. Therefore, audit organizations use independent referencing to document that reports are verified for accuracy. The OIG Handbook, Part II, Chapter 6, Section J requires the independent referencers of audit reports make a notation or "tick mark" over each number, amount, name, reference, and date, and at the end of each line to indicate his or her verification of the report. When the OIG adopted TeamMate, the requirement for auditors to use notations to document the referencing process was eliminated. For audits using TeamMate, the OIG TeamMate Protocol only requires the referencer to document exceptions rather than make notations as stated in the OIG Handbook to document that every fact and line were referenced. Independent referencing with proper documentation provides management with assurance that all facts and data in the report were verified for accuracy. In 4 of the 6 performance audits, the financial statement audit, and 3 of the 15 desk and other reviews prepared using TeamMate, referenced reports only included the referencer's comments boxes as the notation to document the independent referencing process. There were no other notations to document that the referencer verified all facts and data in the report.

Recommendation – The OIG should reemphasize its policy that requires independent referencers to use notations in the referenced report to document the report verification process. The OIG should also revise its TeamMate Protocol to ensure that the independent referencing process in TeamMate is consistent with the OIG Handbook.

Views of Responsible Official – USAID OIG concurred with our recommendation and will reemphasize the policy requiring the use of notations to document the referencing process, as well as revising the TeamMate Protocol to be consistent with the OIG Handbook.

Finding 2. Financial Audit – Monitoring of IPAs

The Government Accountability Office/President's Council on Integrity and Efficiency (GAO/PCIE) Financial Audit Manual (FAM) recommends auditors to perform certain procedures when using the work of other auditors. GAO/PCIE adopted the FAM to provide auditors with a framework to comply with GAGAS. Specifically, FAM Section 650 provides comprehensive guidance for auditors to design procedures for monitoring the independent public accountants' (IPAs) work. Our review of the Millennium Challenge Corporation (MCC) financial statement and portions of the USAID financial statement audits conducted by IPAs disclosed that the OIG adequately monitors the work performed. However, we did note that the OIG Handbook, Part III is silent on the required monitoring procedures when IPAs performed or participated in financial statement audits.

Recommendation – The OIG should revise its OIG Handbook, Part III to formally adopt the guidance outlined in the GAO/PCIE FAM Section 650, to ensure that monitoring of IPAs is adequately and consistently performed and documented.

Views of Responsible Official – USAID OIG concurred with our recommendation and will revise the OIG Handbook to formally adopt GAO/PCIE FAM Section 650 for the monitoring of IPAs related to the financial statements audits.

Finding 3. Contracts/Grants Financial Audits Oversight – Documentation Quality

The OIG Handbook Part IV covers guidance monitoring and oversight activities including reviews and transmission of audit reports issued by non-USAID auditors of programs and activities managed by USAID, the African Development Foundation (ADF), the Inter-American Foundation (IAF), and the MCC. Part IV only requires the cross-indexing of the transmittal memo to supporting workpapers and independent referencing of the transmittal memo (if warranted by the Regional Inspector Generals). In 5 of the 15 reviews, documentation lacked workpaper indexing and proper cross-indexing, preparer signoff, and evidence of supervision. We believe that the inconsistencies found in the documentation of USAID OIG's desk reviews and reviews of agency contracted audits (ACA) and recipient contracted audits (RCA) resulted from incomplete policy on the requirements for documentation of supervision and the retention and maintenance of documentation related to these reviews.

Recommendation – The OIG should revise its OIG Handbook, Part IV to strengthen the requirements for supervision and documentation to be prepared and retained of work resulting from desk reviews and reviews of ACAs and RCAs to ensure a quality product.

Views of Responsible Official – USAID OIG concurred with our recommendation and will revise the OIG Handbook to strengthen the supervision and documentation requirements of desk reviews and ACAs and RCAs.

Management Comments



OFFICE OF INSPECTOR GENERAL

November 30, 2006

William S. Maharay
Deputy Inspector General for Audit Services
Office of Inspector General
Department of Energy
Washington, DC 20585

Dear Mr. Maharay:

This letter is in response to the draft Report on the External Quality Control Review of the U. S. Agency for International Development's Office of Inspector General (OIG) Audit Organization issued by your office on October 27, 2006. We are pleased that your review found that the system of quality control for the audit function of our office has been designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, and was being complied with for the year ended March 31, 2006.

With regard to the three reportable conditions mentioned in the draft report, we concur with each and are taking action to address the three recommendations as follows:

Recommendation No. 1 - The OIG should reemphasize its policy that requires independent referencers to use notations in the referenced report to document the report verification process. The OIG should also revise its TeamMate Protocol to ensure that the independent referencing process in TeamMate is consistent with the OIG Handbook.

USAID OIG Response -- By December 31, 2006, we will issue a memorandum to our audit offices, which will reemphasize our current policy that requires independent referencers to use notations in the referenced report to document the report verification process. Further, as part of our current OIG Handbook revision process, we plan to revise the TeamMate Protocol chapter to ensure that the Protocol is consistent with the OIG Handbook section on referencing. We expect that all revisions will be incorporated into a new OIG Handbook by March 31, 2007.

Recommendation No. 2 - The OIG should revise its OIG Handbook, Part III to formally adopt the guidance outlined in the GAO/PCIE FAM Section 650, to ensure that monitoring of IPAs is adequately and consistently performed and documented.

USAID OIG Response -- As part of our current OIG Handbook revision process, we plan to formally adopt the GAO/PCIE FAM Section 650 guidance. We expect that all revisions will be incorporated into a new OIG Handbook by March 31, 2007.

U.S. Agency for International Development
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Recommendation No. 3 -- The OIG should revise its OIG Handbook, Part IV to strengthen the requirements for supervision and documentation to be prepared and retained of work resulting from desk reviews and reviews of ACAs and RCAs to ensure a quality product.

USAID OIG Response -- As part of our current OIG Handbook revision process, we plan to revise requirements to strengthen the supervision and documentation for our desk reviews of ACAs and RCAs. We expect that all revisions will be incorporated into a new OIG Handbook by March 31, 2007.

We appreciated the professional manner in which your team conducted this review. Please contact me at 202-712-1020 if you need any additional information.

Sincerely,

/s/

Joseph Farinella
Assistant Inspector General for Audit

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the USAID Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included reviewing 24 of 474 reports issued during the September 30, 2005, and March 31, 2006, semiannual reporting periods. In addition, we reviewed the financial statements audits for USAID's Fiscal Year (FY) 2005 and FY 2004 financial statements and the monitoring activities of the FY 2004 Millennium Challenge Corporation (MCC) financial statement audit and portions of the USAID financial statement audit that were performed under contract with independent public accountants. We also reviewed the internal quality control reviews performed by the reviewed OIG.

OIG Offices Reviewed

We reviewed audits conducted by USAID Regional Inspector General Offices located in Baghdad, Iraq; Dakar, Senegal; Frankfurt, Germany; Manila, Philippines; Pretoria, South Africa; and San Salvador, El Salvador. We also reviewed audits covered by the OIG's Financial Audits Division, Performance Audits Division, and MCC Audits Division in Washington DC.

Audit Reports Reviewed

We used judgmental and random sampling methodologies to select the reports for review. We selected the reports to ensure a broad range of activities and costs savings identified by the reports. The table below summarizes the reports included in our review:

| Report Number | Report Date | Report Title |
|----------------|-------------|--|
| E-267-05-013-D | 06/14/2005 | Audit of Costs Incurred and Billed to USAID by Bearing Point, Inc. under USAID Contract No. RAN-C-00-03-00043-00, April 1, 2004 through September 30, 2004 |
| 5-306-05-006-D | 04/19/2005 | Audit of Costs Incurred in the United States by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2003 to June 30, 2004 |
| 4-674-05-016-R | 06/10/2005 | Closeout Audit of People's Housing Partnership Trust Under USAID Cooperative Agreement No. 674-0312-A-98-00045 for the Period March 1, 1998 to March 31, 2002 |
| 4-623-06-007-R | 12/19/2005 | Audit of Inter-Governmental Authority on Development Under USAID Award No. 623-0006, Project Implementation Letters 49, 51, 54, 55, 56, and 57 for the Period January 1 to December 31, 2004 |
| 8-000-06-004-R | 12/20/2005 | Audit of the Tuberculosis Coalition for Technical Assistance, Under USAID Award No. HRN-A-00-00-00018-00, for the Year Ended September 30, 2002 |
| 7-688-05-006-R | 06/28/2005 | Audit of Local Currency Expenses Incurred by the Administrative and Financial Directorate of the Malian Ministry of Health Under the Youth Strategic Objective Project No. 688-0272 for the Period January 1, 2001 to September 30, 2003 |
| 5-497-05-022-R | 06/30/2005 | Financial Audit of the Program Titled "Strengthening Civil Society in Aceh and Its Contribution to Promote Peaceful 2004 Elections," USAID/Indonesia Cooperative Agreement No. AID 497-A-00-04-00004-00, Managed by the YAPPIKA Aliansi Masyarakat Sipil untuk Demokrasi, for the Period from December 30, 2003 to December 31, 2004 |
| 1-522-05-061-R | 06/24/2005 | Close-out Financial Statement Audit of the Honduran Environmental Protection Fund Project, Cooperative Agreement No. 522-0385-A-00-3330-00, Managed by Fundacion Hondurena de Ambiente y Desarrollo, for the Period January 1, 2002 to December 31, 2003 |
| 1-518-05-081-R | 08/29/2005 | Audit of the Fund Accountability Statement of the Environmental Support Program, No. 518-0126, Managed by the Galapagos National Park, for the Year Ended December 31, 2002 |
| 1-532-06-062-R | 03/02/2006 | Close-Out Audit of the Fund Accountability Statement for the Improved Citizens Security and Participation in Democratic Processes Project, Agreement No. 532-008, Managed by the Ministry of Justice, for the Period from March 14, 2002 to February 28, 2005 |
| 7-680-05-001-N | 05/31/2005 | Close-out Audit of USAID Resources Managed by Songhai, Benin Under Grant No. 680-G-00-02-00232-00 |
| 5-383-05-002-S | 09/02/2005 | Risk Assessments of Major Activities Under USAID/Sri Lanka's Tsunami Recovery and Reconstruction Program |
| 1-524-05-010-Q | 07/28/2005 | Quality Control Review of the Close-out Audit of the Fund Accountability Statement of the Voter Documentation Support Program, Grant Agreement No. 524-0373, Managed by the Consejo Supremo Electoral, for the Period of July 20, 2001 to November 30, 2001 |
| 4-674-06-003-N | 11/16/2005 | Agency-Contracted Audit of USAID/South Africa's Resources Managed by the University of Kwa-Zulu Natal Under Cooperative Agreement No. HFM-A-00-02-00065-00, Grant Agreement No. AOT-G-00-97-00375-00 and Subcontract No. 5907-454-HRD-4 for the Period April 1, 2002 to December 31, 2004. |
| 4-674-05-010-N | 07/28/2005 | Audit of the Wits Health Consortium Under USAID Bilateral Grant Agreement No. 674-0320-G-00-5053-10, Project Implementation Letters 10, 14, 15, 16 and 17 for the Period January 1, 2002 to December 31, 2003 |
| H-000-05-001-Y | 02/25/2005 | Internal Quality Review of RIG/Dakar |
| 9-306-06-004-P | 12/21/2005 | Audit of Funds Earmarked by Congress to Provide Assistance for Displaced Persons in Afghanistan |
| 9-ADF-05-008-P | 08/17/2005 | Audit of African Development Foundation's Monitoring, Reporting and Evaluation System |
| 1-527-06-001-P | 12/13/2005 | Audit of USAID/Peru's Alternative Development Program |
| E-267-05-005-P | 09/27/2005 | Audit of USAID/Iraq's Cash Control Procedures |
| 4-617-05-006-P | 08/01/2005 | Audit of USAID/Uganda's Implementation of the President's Emergency Plan for AIDS Relief |
| 4-674-06-005-P | 03/13/2006 | Audit of the Effectiveness of USAID/South Africa's Award Closeout and Contractor Performance Evaluation Programs. |
| 0-000-06-001-C | 11/14/2005 | USAID's Financial Statements for Fiscal Years 2005 and 2004 |
| M-000-06-001-C | 12/06/2005 | Audit of the MCC's Financial Statements, Internal Controls, and Compliance for the Period Ending September 30, 2005 and the 9 Months Ending September 30, 2004 |