



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



June 29, 2016

The Honorable Ann Calvaresi Barr
Inspector General
U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW.
Washington, D.C. 20523

Subject: System Review Report on the U.S. Agency for International Development, Office of Inspector General

Dear Ms. Calvaresi Barr:

Attached is the System Review Report of the U.S. Agency for International Development's, Office of Inspector General's audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Your response to the draft report, dated June 23, 2016, is included as Enclosure 3.

We appreciate the cooperation and courtesies extended to our staff during the review.

/s/

Phyllis K. Fong
Inspector General

Attachment



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System Review Report

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The Honorable Ann Calvaresi Barr
Inspector General
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We have reviewed the system of quality control for the audit organization of U.S. Agency for International Development (USAID) Office of Inspector General (OIG) in effect for the year ending March 31, 2015. A system of quality control encompasses USAID OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. USAID OIG is responsible for establishing and maintaining a system of quality control that is designed to provide USAID OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and USAID OIG's compliance therewith, based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed USAID OIG personnel and obtained an understanding of the nature of USAID OIG's audit organization, and the design of USAID OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with USAID OIG's system of quality control. The audits selected represented a reasonable cross-section of USAID OIG's audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with USAID OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

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

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

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

Enclosure 2 to this report identifies USAID OIG audits that we reviewed.

We noted the following deficiencies during our review.

1. USAID OIG's independence is impaired and needs to appropriately apply the independence conceptual framework to maintain independence related to nonaudit services. USAID OIG accepted responsibility for designing, implementing, and maintaining internal controls related to nonaudit services performed as part of financial audits of USAID contractors, recipients, and host government entities. In addition, we found that in two of three reports in which USAID OIG audited USAID's oversight of grants, USAID OIG used policies and procedures it developed for USAID as criteria. This practice compromises the auditors' independence.
2. For 6 of 13 performance audit reports, USAID OIG did not explain in the report the relationship between the sample population and the items tested.
3. For 5 of 14 sampled audit reports, USAID OIG audit documentation was not prepared in sufficient detail to enable an experienced auditor to understand the work performed, evidence obtained, significant judgments made, and conclusions reached.
4. For 3 of 13 performance audit reports, USAID OIG did not design additional procedures for detecting fraud when the risk of fraudulent use of program funds was identified in the planning procedures.
5. For the two performance audits we reviewed that contained sensitive information and were redacted, USAID OIG did not inform users why pertinent information was removed and assess the impact of the omission.
6. For the 13 performance audits reviewed, 1 audit report contained a modified compliance statement that did not adhere to *Generally Accepted Government Auditing Standards*

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(GAGAS) requirements. In addition, USAID OIG did not document the justification for the departure from GAGAS and the impact on the audit and conclusions.

Enclosure 1 to this report provides a detailed, technical discussion of these deficiencies and the responses provided by USAID OIG. Enclosure 3 to this report provides the response from USAID OIG to the deficiencies.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of USAID OIG in effect for the year ending March 31, 2015, has been suitably designed and complied with to provide USAID OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. USAID OIG has received an external peer review rating of *pass with deficiencies*.

As is customary, we have issued a letter dated June 29, 2016, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by CIGIE related to USAID OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether USAID OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion on USAID's monitoring of work performed by IPAs. Accordingly, we do not express an opinion. We made certain comments related to USAID's monitoring of audits performed by IPAs that are included in the above referenced letter dated June 29, 2016.

/s/

Phyllis K. Fong
Inspector General

Enclosures

Enclosure 1: System Review Report

We noted the following deficiencies during our review.

Deficiency #1: USAID OIG's Independence is Impaired and Needs to Appropriately Apply the Independence Conceptual Framework to Maintain Independence Related to Nonaudit Services.

USAID OIG's independence is impaired through management participation and self-review activities related to financial audits of USAID contractors, recipients, and host government entities. USAID OIG accepted responsibility for designing, implementing, and maintaining internal controls related to nonaudit services performed as part of financial audits of USAID contractors, recipients, and host government entities. In addition, we found two of three reports in which USAID OIG audited USAID's oversight of grants and used procedures it developed for USAID as criteria. This practice compromises the auditors' independence.

GAGAS 3.02 requires that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent. GAGAS 3.08 presumptively requires that auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to: (a) identify threats to independence; (b) evaluate the significance of the threats identified, both individually and in the aggregate; and (c) apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level. GAGAS 3.14f. describes management participation threat as the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit. GAGAS 3.36g states that accepting responsibility for designing, implementing, or maintaining internal control is an example of an activity considered to be a management responsibility and would therefore impair independence. GAGAS 3.14b describes the self-review threat as the threat that results when an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit.

USAID's agency management's policy and procedure manual ADS Chapter 591¹ infringes upon USAID OIG's independence by requiring USAID OIG to participate in the management activity of developing and maintaining USAID audit management policy as it relates to USAID grant programs. Specifically, USAID's ADS 591.2.g Primary Responsibilities states:

¹ USAID agency management prepared ADS Chapter 591 Financial Audits of USAID Contractors, Recipients, and Host Government Entities. It provides the policy directives and required procedures for planning and conducting financial audits of USAID-funded contractors, recipients, and host government entities.

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As established in the Inspector General Act of 1978, as amended, and ADS 595, Audit Management Program, the Office of Inspector General... – Participates in the development and maintenance of USAID's audit management policies and procedures.

USAID OIG prepared the *Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)*, which is a significant internal control mechanism USAID uses to ensure grant recipients' financial audits are conducted in accordance with professional standards. In addition, the *Guidelines* require OIG staff to provide a list of eligible audit firms from which USAID grant recipients may select. In effect, this places OIG in the management participation activity of vendor list maintenance which is, in our view, a grant management internal control. The *Guidelines* specifically state:

The cognizant USAID mission must approve the recipient's selection of an audit firm from the list of eligible audit firms maintained by the cognizant RIG^[2], prior to execution of the audit services contract.

USAID OIG officials asserted that they prepared the *Guidelines* because the *Inspector General Act of 1978*, as amended (IG Act), requires offices of inspector general to conduct and supervise audits of agency programs and operations. Furthermore, USAID OIG believes that the state of the audit profession in developing countries typically is far below that in the United States and that without the assistance of USAID OIG's nonaudit services, would likely result in an inadequate audit. USAID OIG stated that they do not have historical documentation related to the origination of the guidance.

USAID OIG asserted its actions were appropriate based on §2 of the IG Act which describes that OIG was established to create independent and objective units to conduct and supervise audits. However, USAID OIG's nonaudit services impaired its independence through its participation in management activities related to financial audits of USAID contractors, recipients, and host government entities. Further, §4 of the IG Act requires, in part, compliance with GAGAS and the establishment of guidelines on when to use non-Federal auditors. USAID OIG's *Guidelines* are used to determine which non-Federal auditors USAID can hire, not when USAID should use non-Federal auditors. USAID OIG's nonaudit services, therefore, result in GAGAS noncompliance.

USAID OIG's independence is further threatened due to the risk of self-review because USAID OIG is placed in the position of potentially auditing and reporting on the procedures that USAID OIG developed. For the 685³ reports issued between April 1, 2014, to March 31, 2015, we used

² The term RIG represents a USAID OIG office called a Regional Inspector General.

³ The complete universe included 686 reports. The one reconciling report was selected from the prior year because CIGIE requires the peer review to include at least one audit that had been part of USAID's quality assurance review (QAR) work and USAID had not conducted a QAR during our test period.

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a spreadsheet to filter relevant report numbers,⁴ reducing the number of reports to 80. We then focused on audit report titles indicating an audit objective to review USAID's grant oversight processes and determined that three could contain an objective for USAID OIG to review USAID's grant oversight. Our review of those three audits disclosed USAID OIG impaired its independence in two of them through the self-review threat. The two reports are "Audit of USAID/Guinea's Systems for Ensuring Appropriate Audit Oversight of Funded Programs," 7-675-15-003-P issued November 2014, and "Audit of USAID/Senegal's Systems for Ensuring Appropriate Audit Oversight of Funded Programs," 7-685-15-001-P issued October 2014. For example, the below report shows how USAID OIG used the *Guidelines* it developed for USAID as criteria to hold USAID accountable, which impaired USAID OIG's independence:

Audit Report 7-675-15-003-P, "Audit of USAID/Guinea's Systems for Ensuring Appropriate Audit Oversight of Funded Programs" (November 6, 2014). Our review of this report disclosed that independence was threatened and no safeguards were implemented. For example, Findings 1 and 2 cite OIG's *Guidelines* as criteria that USAID mission/program staff are required to follow. This resulted in a threat to independence because, if the audit team determined during the course of the audit that any of the procedures required by these *Guidelines* are not suitably designed, then OIG would be required to report that the *Guidelines* it developed for USAID are not suitably designed.

Also, the objective of this review went beyond determining compliance with the *Guidelines*. As stated in the report, the objective was to determine whether USAID/Guinea's FY 2013 planned annual financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations, and whether annual audit plans included all recipients that were supposed to be audited. Finding 2 demonstrates that USAID OIG's work was more than an assessment of compliance with the *Guidelines*. As reported, Finding 2 describes that the Mission did not maintain a complete audit plan with respect to close-out audits based on the guidance found in the *Guidelines*. The finding also acknowledges that Mission officials did not include a close-out audit of a particular award because the *Guidelines* were not clear that the audit should be done. In developing this finding and the associated recommendations, USAID OIG made an assessment of the clarity of the *Guidelines* it developed and concluded that they were sufficiently clear. This self-review impaired USAID OIG's independence.

Recommendation 1—USAID OIG should evaluate the GAGAS impact of the identified independence threat for noted Audit Reports 7-675-15-003-P, "Audit of USAID/Guinea's

⁴ USAID OIG audit report numbers include a report type code. The OIG Handbook provides a list and description of the report type codes. We focused on performance audits, financial statement audits, and nonaudits.

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Systems for Ensuring Appropriate Audit Oversight of Funded Programs,” and 7-685-15-001-P, “Audit of USAID/Senegal’s Systems for Ensuring Appropriate Audit Oversight of Funded Programs” and implement corrective actions to meet GAGAS 3.36.

Views of Responsible Official. We agree with this recommendation and will evaluate the impact of the identified independence threat for the two audits named. We plan to conduct this evaluation and implement any necessary corrective action by December 31, 2016.

Recommendation 2—USAID OIG should fully implement and document the GAGAS Conceptual Framework Approach to Independence for all engagements and non-audit services as defined by GAGAS.

Views of Responsible Official. We agree with this recommendation and will clarify the guidance in our audit Handbook. We plan to complete this corrective action by September 16, 2016.

Recommendation 3—USAID OIG should remove from the USAID ADS Chapter 591 guidance, the responsibility that OIG: “Participates in the development and maintenance of USAID’s audit management policies and procedures.”

Views of Responsible Official. We agree with this recommendation. We have already contacted USAID to remove the statement from ADS Chapter 591 and will have no further responsibility for this chapter.

Recommendation 4—USAID OIG should have USAID affirmatively state that *Guidelines For Financial Audits Contracted By Foreign Recipients* document is a USAID directive and not refer to it as OIG’s guidance.

Views of Responsible Official. USAID OIG agrees with the intent of this recommendation. While we believe it is a legitimate OIG role to disseminate best practices to non-federal auditors who assist in overseeing USAID funds, we will take action to reduce the threat of impairment to our independence. Accordingly, we will revise the *Guidelines* to remove references to USAID Agency processes, thereby giving foreign audit firms a more focused technical document on how to perform audits in accordance with the standards. We will also revise the name of the *Guidelines* to clarify that it represents best practices for auditors.

Furthermore, we are currently conducting a risk-based assessment of our entire nonfederal audit program. We plan to complete this assessment and determine what necessary actions to take by December 31, 2016.

Recommendation 5—USAID OIG should not require USAID fund recipients to use vendors from an USAID OIG list of approved vendors.

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Views of Responsible Official. While we agree with the intent of this recommendation, we also believe that it is a legitimate OIG role to help USAID recipients in developing countries to identify audit firms with the greatest potential to perform audits that comply with *Government Auditing Standards (GAS)*. However, we recognize the need to make modifications to reduce the threat of impairment to our independence. Accordingly, we plan to complete a thorough risk assessment of our entire nonfederal audit program and processes, including how qualified vendors are identified, and then determine what necessary action to take by December 31, 2016.

Deficiency #2: USAID OIG Needs to Report the Relationship Between the Sample Population and Items Tested

We noted that, in 6 out of 13 performance audit reports reviewed, USAID OIG did not explain, in the final audit reports, the relationship between the population and the items tested when using sampling. This occurred because USAID OIG's policy related to reporting the universe of items selected for testing is unclear. Specifically, the *OIG Audit Handbook Part II*, Chapter 6, states: "If sampling significantly supports your findings, describe the sample design and state why it was chosen, including whether the results can be projected to the intended population." As a result, report users are not provided perspective regarding the sample and could make business decisions based on an incorrect perspective.

GAGAS 7.12 states that in describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

For example, Audit Report 5-492-15-005-P, "Audit of USAID/Philippines' Mangrove Rehabilitation for Sustainably Managed, Healthy Forests Project," did not explain the relationship between the population and the items tested either in the finding or in the scope and methodology section of the report. Specifically, the report noted that USAID OIG tested the results of 8 performance indicators and traced reported results to the International Union for the Conservation of Nature and Natural Resources' (IUCN) supporting documents, but it does not inform the user that there are a total of 26 performance indicators. This practice does not meet GAGAS, which requires the auditor to also explain the relationship between the population and the items tested, because the *USAID OIG Audit Handbook* does not clearly require the auditor to report that relationship.

In addition, the USAID OIG quality control mechanism did not always ensure that the sampling universe was included in this audit report where applicable. Specifically, the handbook includes a step to verify that the scope and methodology section explains the relationship between the

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population and the sampled items, but our review demonstrates that USAID OIG does not always identify this relationship.

A similar issue was reported in the U.S. Department of Energy's (DOE) OIG's 2012 Peer Review Letter of Comment to USAID OIG. In DOE's Letter of Comment, the peer reviewers noted that they found that 3 audits (of the 14 sampled audits) did not contain all required sampling-related information in the work papers and the final report. DOE also noted that the 2009 External Peer Review of USAID OIG found three audits with deficiencies in documenting and reporting the sampling methodology. In response, USAID OIG agreed to issue a memorandum reminding staff of the documentation requirements to fully document and report the rationale for their sampling techniques, conduct training for its staff, and perform an internal review to address the finding. USAID OIG issued AIG/A Memorandum 13-01 reminding staff to follow established policies and procedures, and performed a number of training events using a slide presentation as training material. In addition, OIG USAID updated its policies and procedures in December 2014. However, our peer review demonstrates that this problem still exists and we have elevated the prior finding to a deficiency.

Recommendation 6—Clarify and implement sample reporting procedures to include a requirement to explain the relationship between the population and the items tested.

Views of Responsible Official. We agree with this recommendation. We will issue an advisory to all OIG audit staff worldwide reminding them of the importance of disclosing the populations from which samples were drawn and tested to form audit conclusions. In addition, we will incorporate a required check for the disclosure of the sampling population in our formal quality control review of every draft report issued by the Office of Audit. Without that information, audit teams will not receive clearance to issue any draft or final report. We plan to complete this effort by September 16, 2016.

Deficiency #3: USAID OIG Needs to Ensure Audit Documentation is Prepared in Sufficient Detail

We noted that, in 5 out of 14 audits tested, USAID OIG's audit documentation was not prepared in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the work performed, evidence obtained, and/or conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

These audit documentation deficiencies occurred for a variety of reasons: (1) auditors did not properly document sampling and selection criteria, (2) additional information was added post referencing and did not undergo an additional referencing review, (3) auditors decided not to document their determinations related to the financial statement audit, and (4) USAID OIG's guidance is unclear on how thoroughly the independent referencing reviewer should verify

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supporting information. This includes specifying the extent to which information should be traced to supporting information and verifying calculations and auditor's conclusions and judgments, especially when voluminous records are reviewed.

GAGAS 6.79 states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. 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, the audit evidence obtained and its source, and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit.

GAGAS 6.83b states that auditors should document the following: the work performed and evidence obtained to support significant judgments and conclusions, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined).

For financial statement audits, AU-C 230.08 states that the auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (a) the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements; (b) the results of the audit procedures performed, and the audit evidence obtained; and (c) significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The following are examples of the issues we found relating to this issue:

Audit Report 6-263-14-008-P, "Audit of USAID/Egypt's New Scholarship Program":

(It is important to note that the USAID OIG American audit staff needed to evacuate the Cairo audit office during the audit performance period for safety issues related to political and social unrest. This evacuation led to a number of audit performance and supervisory review difficulties.)

We non-statistically selected 17 statements from the report and followed up on 12 items. We needed additional information to trace 4 of the 17 sampled statements to supporting documentation. Even with the additional references for those sampled statements, we identified inaccurate information in the final report for Statements 1 and 17. In addition, we found that the audit files did not contain sufficient information to support the statements and

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conclusions in the final report for Statements 4, 16, and 17. In addition, the audit file did not contain sufficient evidence to document work performed for Statement 11.

Inaccurate Information

Statement 1: The final report summary list of objectives for the program under audit contained an inaccuracy. One of the objectives stated: "...90% of LOTUS graduates" whereas the supporting document has both 90 percent of LOTUS graduates and 90 percent of LOTUS students. By not including 90 percent of LOTUS students, the report does not accurately reflect information on all eight objectives of the program.

Inaccurate and Insufficient Information in the Audit File

Statement 17—Scope and Methodology: "To gauge student satisfaction with the scholarship program we randomly select[ed] 56 of 147 students to get their direct feedback on the quality of the scholarship program and their level of satisfaction with the education received."

This statement in the final report USAID OIG issued was different from the statement in the draft report USAID OIG referenced as part of its system of quality control, the internal report referencing (IRR). The final report was not re-referenced to supporting documentation. The supporting audit documentation states that 60 students were selected, as opposed to 56 as stated in the report. Only 56 students responded out of the 60 that were selected. In addition, the audit documentation did not contain sufficient evidence to support that the sampling was random.

Insufficient Evidence in the Audit File

Statement 4—"The contributions for the three students (Table 1) were ineligible because IIE's accounting records disclosed that the mission, rather than IIE, paid the tuition and fees.

Table 1. Ineligible Amounts

University	Ineligible Questioned Cost (\$)
American University	\$8,355
American University	\$8,355
Marygrove College	<u>\$2,625</u>
Total	\$19,335"

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The peer reviewer was unable to reach the same conclusion as the auditor because the auditor did not document significant judgments in the supporting audit documentation used to arrive at the ineligible amounts in the final report. Specifically, the ineligible cost share amounts in the finding in Table 1 were referenced to an Excel worksheet that did not use formulas to enable a reviewer to calculate the ineligible questioned costs. When the peer reviewer used the ineligible questioned cost method as described in the supporting audit documentation, the peer reviewer calculated additional ineligible questioned costs. The USAID OIG audit team explained that if cost discrepancies were unreasonably large per the staff auditor's judgment, the auditor questioned the cost as ineligible; however, that judgment was not described in the audit documentation.

Statement 11—"Further, for the indicator Number of specialized sessions and meetings for specific purposes, IIE reported 21 sessions while the supporting documentation reflected 15—a 29 percent overstatement."

The audit team did not document specific information, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined), to identify which 15 sessions were verified and which 6 sessions the audit team was not able to verify.

Statement 16—"To verify how IIE managed the candidate selection process we judgmentally selected 130 of 1,854 applications and reviewed the basis for selection and rejection for each candidate."

This information was added after the IRR process without being referenced again. The team provided additional references; however, the additional references provided did not support what auditor judgment factors were used to select the judgmental sample of eligible and ineligible study abroad applicants, which make up part of the sample of 130 of 1,854 total applicants.

For all four performance audits, we were unable to fully understand from the supporting audit documentation the nature, timing, extent, and results of audit procedures performed and the audit evidence obtained and its source. We were also unable to understand the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions in the final report, such as sampling methodologies and why potential ineligible cost share amounts were excluded from being reported. In addition, three of the four final reports contained erroneous information and information that was not supported by the audit documentation.⁵

⁵ For Sample #13, the exception was noted because we were unable to determine conclusions reached on the second objective of the audit. This second objective was not included in the final report, but is reported as a finding in the letter of comment.

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Audit Report 0-000-15-001-C, “Audit of USAID’s Financial Statements for Fiscal Years 2014 and 2013”

The audit file lacked documentation of the significant professional judgements related to the level of work necessary to review an IPA’s work in support of the audit and the decisions related to Information Technology testing. USAID OIG officials verbally conveyed the significant judgements made and the corresponding determinations made about the level of work that needed to be performed. In reviewing the audit file, we found audit documentation supporting the level of work verbally conveyed by USAID OIG officials. The audit file also lacked documentation regarding the effect of the FY 2014 FISMA report deficiencies on the financial statement audit report.

For the financial statement audit, USAID OIG increased the risk of not reporting significant deficiencies or material weaknesses on the internal control report.

Recommendation 7—Clarify existing procedures to ensure auditors 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 work performed, evidence obtained, and conclusions reached, including evidence that supports the auditors’ significant judgments and conclusions.

Views of Responsible Official. We agree with this recommendation and have already taken corrective action in response to the FY 2014 internal QAR. The training course provided to audit staff in FY 2015 emphasized both the importance and mechanics of adequately documenting audit work. We will continue to emphasize this in refresher and new employee training sessions.

In addition, our supervisory checklists call for each audit’s management team, consisting of the audit unit director and assistant director, to review each audit file and certify in writing that:

1. The summary of work in each procedure step adequately addresses the prescribed steps in the audit program.
2. The conclusions and relevant record of work completed are adequately documented for each procedure step in the audit program.
3. Audit testing (validation work) is complete and accurate to provide proper support for findings, judgments, and conclusions.

Recommendation 8—Implement procedures to ensure auditors properly document sampling methodologies, what should be documented when voluminous records are reviewed with noted

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exceptions, and significant judgments made during the audit, including judgments related to planning, performing, and reporting.

View of Responsible Official. We agree with this recommendation. In addition to the corrective action already taken (noted in our response to Recommendation 7), we will clarify existing procedures in our Handbook. We plan to complete this effort by September 16, 2016.

Deficiency #4: USAID OIG Needs to Ensure Additional Fraud Procedures are Adequately Designed and Performed

We noted that, for 3 of the 13 performance audits reviewed, USAID OIG did not design additional procedures and/or perform tests to adequately address fraud concerns when the risk of fraudulent activities was identified and documented during the planning phase of the audit. This occurred because USAID OIG was not consistent in its processes to ensure that, when instances of fraud were identified, additional procedures were designed and testing of such procedures was performed. As a result, the auditors did not plan and perform sufficient work to determine the extent to which fraud had occurred and its effect on the audit findings.

GAGAS 6.31 states that, when auditors identify factors or risks related to fraud that has occurred or is likely to have occurred, they should design procedures to obtain reasonable assurance of detecting any such fraud. Further, GAGAS 6.32 states that, when information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.

For example, Audit Report 4-611-15-001-P, "Audit of USAID/Zambia's HIV Prevention Activities," identified the illegal sale of commodities and unauthorized use of program funds as a fraud risk factor during the planning phase of the audit and developed additional procedures designed to detect the illegal sale of commodities which resulted in an audit finding. However, USAID OIG did not sufficiently develop additional procedures designed to detect the unauthorized use of program funds. Instead, USAID OIG asked fraud-related questions on an inconsistent basis, and not as an additional procedure or with a standard questionnaire when conducting fieldwork at the three projects. For example, fraud discussions were noted with the mission, including all three projects' Contracting Officer's Representatives (CORs), the partner officials for the three projects, but only at some of the projects' numerous site visits. Moreover, interviews with one of the project's CORs had noted a fraud concern; however, no additional follow-up was performed by the audit team to address these fraud concerns.

A similar issue was reported in the DOE OIG's 2012 Peer Review Letter of Comment to USAID OIG. In DOE OIG's Letter of Comment, the peer reviewers noted that USAID OIG did not adequately develop additional audit procedures to address fraud-related issues for 3 of the

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14 sampled audits. DOE OIG recommended that USAID OIG ensure that its audits fully document the planning and testing of fraud-related steps and their resolution. In response, USAID OIG issued AIG/A Memorandum 13-01 reminding staff to follow established policies and procedures, and provided training events using a slide presentation as training material. In addition, OIG USAID updated its policies and procedures in December 2014. However, our peer review demonstrates that this problem still exists and we have elevated the prior finding to a deficiency.

Recommendation 9—Implement procedures to ensure auditors design and perform additional fieldwork steps to ensure fraud concerns identified during the planning phase are addressed.

View of Responsible Official. We agree with this recommendation. While we have seen evidence of improvement on this front through a more recent QAR, we will work to ensure staff observes this step in all audits. We will amend the supervisory checklist for audit planning, which prompts directors and assistant directors to certify the adequacy with which audits have been planned, to include a separate check to ensure that any identified risks are incorporated in the audit program. We plan to complete this effort by September 16, 2016.

Deficiency #5: USAID OIG Needs to Disclose Reasons for Omitting Information in Audit Reports

Our sample of 13 performance audit reports included 2 reports that USAID OIG considered publicly sensitive. For both reports, we found that USAID OIG only published an executive summary which did not disclose the reasons for omitting the remainder of the reports' contents. This occurred because USAID OIG does not consider the publicly posted executive summaries to be publicly available versions of the reports, and therefore had not established formal guidance to instruct audit teams on evaluating, documenting and disclosing reasons for restricting content in the publicly released version of its reports. As a result, users of these publicly released reports may be unaware that important information was omitted and why these omissions were necessary.

GAGAS 7.39 states if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.

As an example, USAID OIG did not publish Audit Report 8-276-14-003-P, "Audit of USAID's Office of Food for Peace Syria-Related Activities," on the internet in its entirety. Instead, USAID OIG published an executive summary with the following introductory statement:

This is a summary of our report on the "Audit of USAID's Office of Food for Peace Syria-Related Activities."

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USAID OIG asserted that it does not consider these publicly posted executive summaries to be the publicly available version of the report, and instead said that there was no publicly available version of the report. However, since these portions of the audit reports are published on USAID OIG's public website with the other audit reports, the executive summaries are the publicly available versions of the report.

Although USAID OIG audit documentation indicated that the report was considered sensitive, but unclassified, the public version did not inform the user that certain information was omitted from the report because it was considered sensitive, but unclassified. . USAID OIG did not have established formal procedures for evaluating, documenting, and disclosing reasons for omitting certain pertinent information from publicly released reports.

Recommendation 10—Develop and implement procedures to ensure audit teams properly evaluate, document, and disclose reasons for omitting certain pertinent information from publicly released reports.

Views of Responsible Official. We agree that the recommendation gives us an opportunity to provide additional context to the public on why some information has been withheld. We will revise our current sensitive but unclassified (SBU) policies to include disclosing reasons for redacting certain information. We plan to complete this effort by September 16, 2016.

Deficiency #6: USAID OIG Needs to Use Appropriate Modified GAGAS Compliance Statements When Reports Do Not Comply With GAGAS

We noted that 1 of the 13 performance audits reviewed did not contain the standard GAGAS compliance statement in the final report. Instead, this report contained a modified GAGAS statement that did not adhere to GAGAS requirements. In addition, USAID OIG did not document the departure from GAGAS and its impact on the audit and conclusions. This occurred because USAID OIG audit staff used a modified GAGAS statement based on internal policy and procedure requirements. However, USAID OIG's internal policies and procedures did not meet the intent of GAGAS in this respect. As a result, the user is not aware of the effect this departure from GAGAS has on the audit and has reduced assurance that the audit work performed met professional standards.

GAGAS 2.24 requires auditors to include one of the following types of GAGAS compliance statements in reports on GAGAS audits: an unmodified or a modified statement. A modified GAGAS compliance statement is to state either that (1) the auditor performed the audit in accordance with GAGAS, except for specific applicable requirements that were not followed, or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. Situations when auditors use modified compliance statements also include scope limitations, such as restrictions on access to

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records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected, or could have affected, the audit and the assurance provided. Further, GAGAS 2.25 requires that when auditors do not comply with applicable requirements, they are to assess the significance of the noncompliance to the audit objectives and document the assessment along with the reasons for not following the requirements.

Audit Report M-000-15-004-S, "Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco," was issued as a review report that contained an incorrect modified GAGAS compliance statement. In this report, USAID OIG asserted that the review was conducted in accordance with specific GAGAS standards (e.g., Chapter 3 and the documentation, evidence, and finding development standards as outlined in Sections 6.56 through 6.82). However, USAID OIG's modified compliance statement does not specifically note which requirements were not followed and the reason(s) for not following those requirements, nor does it assess the significance of the noncompliance to the audit objectives. In addition, the modified GAGAS compliance statement that was used did not indicate compliance with any GAGAS reporting standards, even though a report was issued.

In addition to the use of an incorrectly modified GAGAS compliance statement, USAID OIG inappropriately represented this engagement as a review instead of an audit. GAGAS describes a review as a type of negative assurance engagement where auditors do not perform sufficient work to report findings or recommendations. However, this report included findings and recommendations in contrast to a review engagement as described by GAGAS.

USAID OIG informed us that it did not conduct any attestation engagements and that reviews "happen to share the name of a different work product." USAID OIG's policies and procedures require "reviews" to use an incorrectly modified GAGAS compliance statement which cites compliance with the various GAGAS standards, including foundation and ethical principles, use and application, and general and performance audit standards, rather than any attestation standards. Further, USAID OIG's audit documentation supports that this review was planned and performed as an audit. However, during the drafting of the audit report, USAID OIG headquarters recommended changing the classification of this report from an audit to another product since "significant re-work of the findings is needed in order to meet audit standards." Although the audit team disagreed with this proposed recommendation, USAID OIG continued issuance of this product as a review report along with the incorrectly modified GAGAS compliance statement.

As a result, users of the report may be unclear regarding the type of product USAID OIG is issuing and therefore unable to determine the level of assurance to place on the report.

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Recommendation 11—Implement procedures to require that auditors document departures from GAGAS and the impact on the audit and conclusions.

Recommendation 12—Implement procedures to ensure auditors disclose the appropriate GAGAS compliance statement in reports.

Recommendation 13—Revise the Handbook to comply with relevant GAGAS attestation standards when conducting engagements characterized as reviews.

Views of Responsible Official. We agree with these three recommendations. Our current policies require auditors to disclose any departures from GAS when conducting audits. We plan to phase out reviews as a product line; a decision the new Inspector General arrived at shortly after her confirmation. All current review work products in the pipeline will state that they were conducted in accordance with OIG internal policies—and make no reference to GAS. Going forward, we plan to initiate GAS audits to the maximum extent possible.

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Deficiencies Summary from Sampled Audits

The following table summarizes the above sample exceptions to document the pervasiveness of the noted deficiencies:

Number of Reports	Audit Reports With a Deficiency	Deficiency and Checklist Step Description
5	<ol style="list-style-type: none"> 1. 6-263-14-008-P, “Audit of USAID/Egypt’s New Scholarship Program” 2. G-391-15-003-P, “Audit of USAID/Pakistan’s Khyber Pakhtunkhwa Municipal Services Program” 3. 1-522-15-003-P, “Audit of USAID/Honduras’s ACCESO Project” 4. M-000-15-004-S, “Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco” 5. 0-000-15-001-C, “Audit of USAID’s Financial Statements for Fiscal Years 2014 and 2013” 	<p>USAID OIG Needs to Ensure Audit Documentation is Prepared in Sufficient Detail</p> <p>Appendix E: Checklist for Review of Performance Audit Step 4.14—Did the auditors prepare audit documentation, including objectives, scope, and methodology, in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand the nature, timing, extent, and results of procedures performed, the evidence obtained and its source, and the conclusions reached, including evidence that supports the auditors’ significant judgments and conclusions? (GAGAS, 6.79, 6.83a-6.83b)</p> <p>Appendix C: Checklist for Review of Financial Audits Step 3.20—Was the audit documentation sufficient to enable an experienced auditor having no previous connection to the audit to understand the nature, timing, and extent of procedures performed; results of the procedures performed; audit evidence obtained; and significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions? (AU 230.08-.09)</p>
6	<ol style="list-style-type: none"> 1. 6-263-14-008-P, “Audit of USAID/Egypt’s New Scholarship Program” 2. 5-492-15-005-P, “Audit of USAID/Philippines’ Mangrove Rehabilitation for Sustainably 	<p>USAID OIG Needs to Report the Relationship Between Sample Population and Items Tested</p> <p>Appendix E: Checklist for Review of Performance Audit Step 6.1c—When using sampling, as applicable, explaining the</p>

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Number of Reports	Audit Reports With a Deficiency	Deficiency and Checklist Step Description
	<p>Managed, Healthy Forests Project”</p> <ol style="list-style-type: none"> 3. 4-611-15-001-P, “Audit of USAID/Zambia’s HIV Prevention Activities” 4. A-000-14-005-P, “Audit of USAID’s Use of System Administrator Roles” 5. F-306-14-003-P, “Audit of USAID/Afghanistan’s Afghan Civilian Assistance Program II” 6. M-000-15-004-S, “Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco” 	<p>relationship between the population and the items tested; identifying organizations, geographic locations, and the period covered; reporting the kinds and sources of evidence used; and explaining any significant limitations or uncertainties based on the auditors’ overall assessment of the sufficiency and appropriateness of the evidence in the aggregate? (GAGAS, 7.12)</p>
3	<ol style="list-style-type: none"> 1. M-000-15-004-S, “Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco” 2. G-391-15-003-P, “Audit of USAID/Pakistan’s Khyber Pakhtunkhwa Municipal Services Program” 3. 4-611-15-001-P, “Audit of USAID/Zambia’s HIV Prevention Activities” 	<p>USAID OIG Needs to Ensure Additional Fraud Procedures are Adequately Designed and Performed</p> <p>Appendix E: Checklist for Review of Performance Audit Step 2.7—When the risk of fraud occurring was significant within the context of the audit objectives, did the auditors discuss among the team fraud risks such as incentives or pressures to commit fraud, opportunities, and rationalizations and attitudes; gather and assess information to identify risks of fraud; and include procedures to obtain reasonable assurance of detecting any such fraud and to determine whether fraud had likely occurred and its effect on the audit findings? (GAGAS, 6.11d, 6.30-32)</p>
2	<ol style="list-style-type: none"> 1. 8-276-14-003-P, “Audit of USAID’s Office of Food for Peace Syria-Related Activities” 2. A-000-14-005-P, “Audit of USAID’s Use of System 	<p>USAID OIG Needs to Disclose Reasons for Omitting Information in Audit Release</p> <p>Appendix E: Checklist for Review of Performance Audit Step 6.13—If certain pertinent information was prohibited from</p>

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Number of Reports	Audit Reports With a Deficiency	Deficiency and Checklist Step Description
	Administrator Roles”	<p>public disclosure or was excluded from the report due to its confidential or sensitive nature, did the auditors disclose in the report that information was omitted and the reason or other circumstances that made the omission necessary? (GAGAS, 7.08, 7.39)</p> <p>(a) When circumstances called for omission of certain information, did the auditors evaluate whether the omission could have distorted the audit results or concealed improper or illegal practices? (GAGAS, 7.42)</p>
1	1. M-000-15-004-S, “Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco” ⁶	<p>Documenting and Reporting Non-Compliance with GAGAS</p> <p>Appendix E: Checklist for Review of Performance Audit Step 4.16—When auditors did not comply with applicable GAGAS requirements, did they document the departure from GAGAS and the impact on the audit and on the auditors’ conclusions, including (1) assessing the significance of the noncompliance to the audit objectives, along with their reasons for not following the requirement(s); and (2) determining the type of GAGAS compliance statement? (GAGAS, 2.25, 6.84)</p> <p>Appendix E: Checklist for Review of Performance Audit Step 6.11—When the auditors did not comply with all applicable GAGAS requirements, did they include a modified GAGAS compliance statement in the report? (GAGAS, 2.24b, 7.31)</p> <p>(a) Did the auditors use a statement that included either (1) the language in GAGAS, 7.30, modified to indicate the requirements that were not followed or (2) language that the auditor did not comply with GAGAS? (b)</p>

⁶ This count includes two noncompliances that were combined to make one overall deficiency related to documenting and reporting noncompliance with GAGAS.

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Number of Reports	Audit Reports With a Deficiency	Deficiency and Checklist Step Description
		When modified GAGAS statement is used, did the auditors include the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected, or could have affected, the audit and the assurance provided?

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Scope and Methodology

We tested compliance with USAID OIG's audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 38 of 686 audit reports issued and reported in the Semiannual Reports to Congress during the one year sample period: April 1, 2014, through March 31, 2015. We also reviewed one performance audit which had been reviewed by USAID OIG's internal quality assurance review.⁷ The internal quality assurance review was conducted outside of our 1 year sampling period, but within the 3 year peer review period April 1, 2012, through March 31, 2015. In total, we selected 39 reports for review.

USAID OIG issues a variety of audit products which comprised the 686 audit reports issued during the 1 year review period. We determined that 117 of the 686 audit reports fell under categories specifically excluded from the CIGIE audit peer review, such as Defense Contract Audit Agency audits, Office of Management and Budget A-133 Single Audits, or engagements conducted in accordance with CIGIE's Inspections and Evaluations criteria.

We elected to review a non-statistical sample of the remaining 569 audit reports, which we separated into five strata: performance, financial, IPA monitoring, desk review modified GAGAS statement,⁸ and other.⁹ These five strata fit into two broad categories: GAGAS audits conducted in house by USAID OIG (Performance and Financial), and other types of engagements (IPA monitoring, desk review modified GAGAS statement, and other). These "desk review modified GAGAS statement" and "other" report types were included in our sample selection because we were unclear as to the purpose of these reports. We expected that there was a reasonable risk that report users could be misled regarding the work USAID OIG performed based on report language.

We determined audit coverage level of the two broad categories by risk. As a peer review assesses an organization's compliance with GAGAS, the in-house GAGAS audits were most important to the overall peer review rating. Therefore, we started with an audit coverage level of 20 percent for those engagements. For the other engagements, we selected a 5 percent audit coverage level, as any concerns with those products would likely result in a letter of comment and not affect the overall peer review rating.

⁷ USAID OIG reviewed 12 performance audits during its internal quality assurance review.

⁸ These USAID OIG products were described as not GAGAS products; however, each product we observed included a modified GAGAS statement indicating some sort of GAGAS compliance on the associated transmittal letter. As a result, we determined it would be professionally responsible to sample these types of reports to develop a more thorough understanding of the service provided by USAID OIG and the relation to the modified GAGAS compliance statement.

⁹ These "other" products included 1 "empirical study," 2 "limited scope reviews," 21 "quality control reviews," and 86 "incurred cost audits."

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We then selected a non-statistical sample of engagements from each broad category for review. Our sampling methodology focused on obtaining a variety of products from a variety of offices taking into consideration concerns about specific audits and offices identified during the risk assessment. We believe our sample design provides an adequate representation of the population, but because it was non-statistically selected, our sample results cannot be projected.

Stratum	Number Sampled from One Year Universe	Number in One Year Universe
GAGAS Performance Audit	12	59
GAGAS Financial Audit	1	3
IPA Monitoring ¹⁰	7	88
Desk Reviews modified GAGAS statement	11	309
Others	7	110
TOTAL	38	569

We visited USAID OIG’s headquarters located in Washington, D.C. We did not conduct site visits of USAID OIG’s overseas offices due to excessive travel costs; this did not impact the objective of the review. We were able to communicate with overseas audit staff via telephone and email to resolve questions concerning audit report samples.

¹⁰ Once we began reviewing these files, we noted that only three of the sampled products were IPA monitoring where the IPAs were engaged by USAID OIG to perform an audit. The other four audits were contracted by the agency, USAID, where USAID OIG provided some oversight. We determined that these reports (81 out of the 88 population stratum) were more closely aligned to desk reviews as opposed to the IPA monitoring. Only 7 out of the 88 population stratum were traditional IPA monitoring, where the IPAs were engaged by USAID OIG to perform an audit. The sampled audits details are split into two separate charts below: “Reviewed IPA Monitoring Files of USAID OIG Contracted Audits” and “Reviewed Agency Contracted Audits.”

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Reviewed GAGAS Performance and Financial Audits Performed by USAID OIG:

Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
1	1-514-15-004-P	1/30/2015	Audit of USAID/Colombia's Afro-Colombian and Indigenous Program	0
2	8-276-14-003-P	7/30/2014	Audit of USAID's Office of Food for Peace Syria-Related Activities	1
3	6-263-14-008-P	5/29/2014	Audit of USAID/Egypt's New Scholarship Program	2
4	5-492-15-005-P	3/27/2015	Audit of USAID/Philippines' Mangrove Rehabilitation for Sustainably Managed, Healthy Forests Project	1
5	G-391-15-003-P	3/27/2015	Audit of USAID/Pakistan's Khyber Pakhtunkhwa Municipal Services Program	2
6	4-611-15-001-P	2/20/2015	Audit of USAID/Zambia's HIV Prevention Activities	2
7	1-522-15-003-P	1/26/2015	Audit of USAID/Honduras's ACCESO Project	1
8	0-000-15-001-C	11/17/2014	Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013	1
9	7-ADF-15-002-P	10/24/2014	Audit of U.S. African Development Foundation's Activities in Burkina Faso	0
10	A-000-14-005-P	8/5/2014	Audit of USAID's Use of System Administrator Roles	2
11	F-306-14-003-P	6/10/2014	Audit of USAID/Afghanistan's Afghan Civilian Assistance Program II	1
12	9-121-14-002-P	5/29/2014	Audit of USAID's Strengthening Civil Society in Ukraine Project	0

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
13	M-000-15-004-S	3/30/2015	Review of the Millennium Challenge Corporation-Funded Small-Scale Fisheries Project in Morocco	5 ¹¹
39 ¹²	5-388-13-006-P	6/19/2013	Audit of USAID/Bangladesh's Promoting Democratic Instructions and Practices Program	0

Reviewed IPA Monitoring Files of USAID OIG Contracted Audits:

Sample Number	Report Number	Report Date	Report Title	Number of IPA noncompliance instances
32	A-000-15-003-P	10/30/2014	Audit of USAID's Fiscal Year 2014 Compliance with the Federal Information Security Management Act of 2002	1
36	M-000-15-001-C	11/14/2014	Audit of the Millennium Challenge Corporation's Financial Statements, Internal Controls, and Compliance for the Fiscal Years Ending September 30, 2014 and 2013.	0
38	A-MCC-14-008-P	9/12/2014	Audit of the Millennium Challenge Corporation's Fiscal Year 2014 Compliance with the Federal Information Security Management Act of 2012	0

¹¹ This count includes two noncompliances that were combined to make one overall deficiency related to documenting and reporting non-compliance with GAGAS.

¹² This is the QAR sample selection we selected to meet CIGIE's requirement to include at least one audit or attestation engagement internally reviewed under the OIG's quality control and assurance program.

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Reviewed Agency Contracted Audits:

Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
14	F-306-15-021-N	2/3/2015	Closeout Audit of Costs Incurred by Aircraft Charter Solutions, Inc. (ACS) Under the Embassy Air Project Contract, Contract No. 306-C-00-10-00510-00, for the Period January 1, 2012, to March 31, 2013	N/A ¹³
23	M-000-14-018-N	8/28/2014	Audit of the Fund Accountability Statements of the Millennium Challenge Corporation's (MCC) Resources Managed by the Millennium Challenge Account (MCA) Namibia Agreement Between the MCC and the Government of the Republic of Namibia for the Period January 1, 2013 to March 31, 2014	N/A
24	8-294-14-004-N	7/17/2014	Audit of the Cost Representation Statement of Community Development Group, Under Prime CH2MHILL's Contract Number 294-C-00-00-00063-00, Integrated Water Recourses Program Phase III, for the Period From July 1, 2006, to September 30, 2007	N/A
29	5-383-15-003-N	12/11/2014	Closeout Audit of the Construction Craftsman Training Program (CCTP), USAID/Sri Lanka's Cooperative Agreement No.	N/A

¹³ Each of these reviewed agency contracted audits were determined to be non-GAGAS type audits and not applicable to the system peer review.

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
			383-A-00-10-00510-00, Managed by the Chamber of Construction Industry of Sri Lanka for the Period From July 15, 2010, to April 20, 2012	

Reviewed Desk Reviews with Modified GAGAS Statement:

Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
15	1-511-14-026-R	6/9/2014	Close-out Audit of Cooperative Agreement No. 511-A-11-00002 for the “Promeso Program,” and Cooperative Agreement 511- A-12-00001 for the ”Healthy Communities Program,” Managed by Asociacion Proteccion a la Salud (PROSALUD), for the Period From January 1, 2013, to July 31, 2013	N/A ¹⁴
17	4-621-14-060-R	5/13/2014	Audit of USAID Resources Managed by Deloitte Consulting Limited for the Tunajali Program Under Cooperative Agreement No. 621-A-00-07-00023-00 (Close-out Audit) for the Period January 1, 2011 to June 30, 2012; Contract No.	N/A

¹⁴ Each of these reviewed desk reviews with modified GAGAS statements were determined to be non-GAGAS type audits and not applicable to the system peer review.

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
			621-C-00-07-00002-00 (Close-out Audit) for the Period January 1, 2011 to June 30, 2012; Indefinite Quantity Contract No. 621-I-00-08-00003-00 for the Year Ended December 31, 2011; and Cooperative Agreement No. 621-A-00-11-00005-00 for the Period December 1, 2010, to December 31, 2011	
19	6-263-14-029-R	5/19/2014	Close-out Financial Audit of One World Foundation, USAID Agreement Number AID 263-G-00-11-00008, Monitor and Broadcast Parliamentary Elections Project, for the Period From June 20, 2011, to April 19, 2012	N/A
22	3-000-15-009-R	11/14/2014	Audit of Deutsche Welthungerhilfe e.V. (DW) Under USAID Multiple Agreements for Fiscal Year (FY) Ended December 31, 2012	N/A
25	8-294-14-003-R	8/26/2014	Close-out Audit of Locally Incurred Costs by Montgomery Watson Harza Americas Inc., Task Order Numbers 1 and 2 Under Indefinite Quantity Contract Number 294-I-00-08-00202-00, Infrastructure Needs Program I, for the Period From July 1, 2010, to June 30, 2012	N/A

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
26	5-386-14-021-R	4/8/2014	Financial Audit of the Project “The HIV Partnership: Impact Through Prevention, Private Sector and Evidence-Based Programming (PIPPSE),” USAID/India Cooperative Agreement No. AID-386-A-12-00003, Managed by the Public Health Foundation of India (PHFI), for the Period From June 1, 2012, to March 31, 2013	N/A
27	F-306-14-001-R	7/13/2014	Closeout Audit of the Fund Accountability Statement of Resources Managed by the American University of Afghanistan Under the “Support to American University of Afghanistan” Project, Cooperative Agreement No. 306-A-00-08-00525-00, for the Period July 1, 2011-July 31, 2013	N/A
28	G-391-14-025-R	6/25/2014	Financial Audit of the Program Titled: “USAID’s Agribusiness Project,” USAID/Pakistan Agreement AID-391-A-12-00001, Managed by Agribusiness Support Fund, for the Year Ended June 30, 2013	N/A
30	7-675-15-009-R	3/13/2015	Recipient-Contracted Audit of USAID Resources Managed by Opportunities and Industrialization Centers (OIC) Under the Rural Microenterprise	N/A

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
			Development Project in the Fouta Djallon Highlands in Guinea (RMDG)(Cooperative Agreement No. 675-A-12-00001) for the Period January 1, 2012 to December 31, 2013	
31	8-294-14-002-O	7/14/2014	Close-out Examination of Kids Creating Peace Compliance With Terms and Conditions of Fixed Obligation Grant Number 294-G-00-12-00002, Youth Creating Peace Program, for the Period From June 19, 2012, to August 31, 2013	N/A
35	3-000-14-003-E	5/1/2014	Western NIS Enterprise Fund (WNISEF) for the Year Ended September 30, 2013	N/A

Reviewed "Others":

Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
16	3-000-15-005-I	10/28/2014	Weidemann Associates, Inc. Report on Audit of Incurred Costs for Fiscal Year (FY) Ended December 31, 2011	N/A ¹⁵
18	3-000-14-093-I	9/8/2014	Shorebank International Ltd. (SI) Report on Audit of	N/A

¹⁵ Each of these reviewed "others" audits were determined to be non-GAGAS type audits and not applicable to the system peer review.

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Sample Number	Report Number	Report Date	Report Title	Number of GAGAS noncompliance instances
			Incurring Costs for Fiscal Year (FY) Ended December 31, 2007	
20	3-000-14-072-I	6/24/2014	Weidemann Associates, Inc. (WAI) Report on Audit of Incurred Costs for Fiscal Year (FY) Ended December 31, 2010	N/A
21	3-000-15-020-I	1/26/2015	The Mitchell Group, Inc. (TMGI) Report on Audit of Incurred Costs for Fiscal Year (FY) Ended December 31, 2010	N/A
33	8-165-15-004-Q	3/26/2015	Quality Control Review on KPMG, Audit of the Fund Accountability Statement of the Foundation Open Society Macedonia, Roma Education Program, Cooperative Agreement Number 165-A-00-04-00101-00, and Civil Society Project, Cooperative Agreement Number AID-165-A-12-00004, for the Year Ending December 31, 2013	N/A
34	3-000-15-001-L	2/20/2015	Limited Scope Review of Cooperative for Assistance and Relief Everywhere, Inc. (CARE) for Fiscal Year 2015	N/A
37	M-000-14-005-S	9/26/2014	Review of MCC's Incentive Effect	N/A

USAID OIG's Response



Office of Inspector General

June 23, 2016

The Honorable Phyllis K. Fong
Inspector General
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, D.C. 20250

Dear Ms. Fong:

Thank you for your office's thorough and insightful peer review of USAID OIG's system of audit quality controls. We take the results of the peer review seriously, and are working diligently to address the concerns identified in the system report and to quickly and efficiently incorporate the letter of comment recommendations into our revised audit policies and practices.

While your office determined that USAID OIG, for the year ending March 31, 2015, had suitably designed and complied with its system of quality controls to provide reasonable assurance that our audit performance and reporting conformed with applicable standards in all material respects, addressing the deficiencies you identified in our *pass with deficiencies* rating will be critical to our independence and work.

Since I took office in late November 2015, I have focused on and implemented actions to improve our office's quality and adherence to government auditing standards. Notably, within months of my confirmation, I announced plans to stand up a quality assurance division reporting to the Deputy Inspector General to conduct annual quality assurance reviews of our audit office and other OIG functions. I also worked to develop a February 2016 cooperation memorandum with the USAID Administrator to ensure my auditors and investigators have full access to the documentation and people they need to carry out our mission. We have recognized the need for additional actions to improve the quality of our audits. In fact, our most recent internal quality assurance review identified several of the same areas for improvement you noted—a number of which we have already taken action on, including developing and implementing supervisory checklists. I also plan to significantly enhance our internal training program.

It is my personal aim to ensure USAID OIG becomes a model oversight organization and maintains the highest standards of independence and integrity. USAID OIG's insights into how we can improve will factor greatly into my efforts to achieve this goal.

Sincerely,

Ann Calvaresi Barr /s/
Inspector General



Office of Inspector General

June 23, 2016

Gil H. Harden
Assistant Inspector General for Audit
U.S. Department of Agriculture
Office of Inspector General
1400 Independence Avenue SW
Washington, D.C. 20250

Subject: Response to System Review Draft Report on the U.S. Agency for International Development, Office of Inspector General

Dear Mr. Harden:

On behalf of the U.S. Agency for International Development (USAID) Office of Inspector General (OIG), we would like to thank the U.S. Department of Agriculture (USDA) OIG peer review team for its work and feedback during the peer review process. We appreciate the thoroughness of the team's efforts and take seriously our responsibility to ensure the integrity of USAID OIG's audit function. Your peer review will help us make improvements so that we can continue to be a reliable voice for reporting on the efficiency and effectiveness of U.S. foreign assistance programs.

We will work diligently to make changes in the areas in which your team noted we could strengthen our audit policies and practices and endeavor to ensure that our next peer review reflects favorably on our audit systems.

The peer review team primarily focused on USAID OIG work products issued more than a year ago. Since that time, our organization has undergone significant changes, including the appointment of a new Inspector General and selection of a new Deputy Inspector General and Assistant Inspector General for Audit. USAID OIG leadership recognized the need for improvements before USDA OIG's peer review commenced and began taking action last year. In fact, a number of the findings you identified also emerged from our October 2014 internal quality assurance review (QAR). Following the 2014 QAR, we took the following significant actions to improve our audit policies and practices:

- In January 2015, OIG designed a training course for all USAID OIG audit staff to address internal controls in the audit process from design to reporting. By August 2015, we had provided training to staff located in Headquarters and our overseas offices throughout the world.
- In February 2015, we created and distributed required supervisory checklists that prompt audit managers and directors to review and certify that planning steps were adequately

completed and documented in a timely manner, that the audit program was sufficiently followed and documented in a way that an experienced auditor would understand, and that all staff complied with quality controls for reporting.

In addition, as further evidence of our commitment to quality, our Inspector General almost immediately after her confirmation announced her decision to create a quality assurance division that will report directly to the Deputy Inspector General. This division will conduct annual quality assurance reviews of OIG's audit and other OIG functions.

Unfortunately, the impact of these reforms could not be captured in USDA OIG's peer review, which primarily focused on audit reports issued between April 1, 2014, and March 31, 2015, that were supported by fieldwork conducted as much as a year earlier. In a more recent QAR that we conducted, we found significant improvement in the areas cited in USDA OIG's peer review.

Given the great relevance of all these measures to the peer review results, we believe it is important that these actions be acknowledged in the peer review report, so that readers will be able to view the peer review results in full context.

With regard to the deficiencies noted, USAID OIG is committed to strengthening our audit function to thoroughly reflect applicable standards and ensure that our policies and future practices embody independence and transparency. We plan to address your specific peer review recommendations as follows.

Recommendation 1—USAID OIG should evaluate the GAGAS impact of the identified independence threat for noted Audit Reports 7-675-15-003-P, "Audit of USAID/Guinea's Systems for Ensuring Appropriate Audit Oversight of Funded Programs," and 7-685-15-001-P, "Audit of USAID/Senegal's Systems for Ensuring Appropriate Audit Oversight of Funded Programs" and implement corrective actions to meet GAGAS 3.36.

We agree with this recommendation and will evaluate the impact of the identified independence threat for the two audits named. We plan to conduct this evaluation and implement any necessary corrective action by December 31, 2016.

Recommendation 2—USAID OIG should fully implement and document the GAGAS Conceptual Framework Approach to Independence for all engagements and non-audit services as defined by GAGAS.

We agree with this recommendation and will clarify the guidance in our audit Handbook. We plan to complete this corrective action by September 16, 2016.

Recommendation 3—USAID OIG should remove from the USAID ADS Chapter 591 guidance, the responsibility that OIG: "Participates in the development and maintenance of USAID's audit management policies and procedures."

We agree with this recommendation. We have already contacted USAID to remove the statement from ADS Chapter 591 and will have no further responsibility for this chapter.

Recommendation 4—USAID OIG should have USAID affirmatively state that *Guidelines For Financial Audits Contracted by Foreign Recipients* document is a USAID directive and not refer to it as OIG's guidance.

We agree with the intent of this recommendation. While we believe it is a legitimate OIG role to disseminate best practices to non-federal auditors who assist in overseeing USAID funds, we will take action to reduce the threat of impairment to our independence. Accordingly, we will revise the *Guidelines* to remove references to USAID Agency processes, thereby giving foreign audit firms a more focused technical document on how to perform audits in accordance with the standards. We will also revise the name of the *Guidelines* to clarify that it represents best practices for auditors.

Furthermore, we are currently conducting a risk-based assessment of our entire nonfederal audit program. We plan to complete this assessment and determine what necessary actions to take by December 31, 2016.

Recommendation 5—USAID OIG should not require USAID fund recipients to use vendors from a USAID OIG list of approved vendors.

While we agree with the intent of this recommendation, we also believe that it is a legitimate OIG role to help USAID recipients in developing countries to identify audit firms with the greatest potential to perform audits that comply with *Government Auditing Standards (GAS)*. However, we recognize the need to make modifications to reduce the threat of impairment to our independence. Accordingly, we plan to complete a thorough risk assessment of our entire nonfederal audit program and processes, including how qualified vendors are identified, and then determine what necessary action to take by December 31, 2016.

Recommendation 6—Clarify and implement sample reporting procedures to include a requirement to explain the relationship between the population and the items tested.

We agree with this recommendation. We will issue an advisory to all OIG audit staff worldwide reminding them of the importance of disclosing the populations from which samples were drawn and tested to form audit conclusions. In addition, we will incorporate a required check for the disclosure of the sampling population in our formal quality control review of every draft report issued by the Office of Audit. Without that information, audit teams will not receive clearance to issue any draft or final report. We plan to complete this effort by September 16, 2016.

Recommendation 7—Clarify existing procedures to ensure auditors 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 work performed, evidence obtained, and conclusions reached, including evidence that supports the auditors' significant judgements and conclusions.

We agree with this recommendation and have already taken corrective action in response to the FY 2014 internal QAR. The training course provided to audit staff in FY 2015 emphasized both the importance and mechanics of adequately documenting audit work. We will continue to emphasize this in refresher and new employee training sessions.

In addition, our supervisory checklists call for each audit's management team, consisting of the audit unit director and assistant director, to review each audit file and certify in writing that:

1. The summary of work in each procedure step adequately addresses the prescribed steps in the audit program.

2. The conclusions and relevant record of work completed are adequately documented for each procedure step in the audit program.
3. Audit testing (validation work) is complete and accurate to provide proper support for findings, judgments, and conclusions.

Recommendation 8—Implement procedures to ensure auditors properly document sampling methodologies, what should be documented when voluminous records are reviewed with noted exceptions, and significant judgments made during the audit, including judgments related to planning, performing, and reporting.

We agree with this recommendation. In addition to the corrective action already taken (noted in our response to Recommendation 7), we will clarify existing procedures in our Handbook. We plan to complete this effort by September 16, 2016.

Recommendation 9—Implement procedures to ensure auditors design and perform additional fieldwork steps to ensure fraud concerns identified during the planning phase are addressed.

We agree with this recommendation. While we have seen evidence of improvement on this front through a more recent QAR, we will work to ensure staff observes this step in all audits. We will amend the supervisory checklist for audit planning, which prompts directors and assistant directors to certify the adequacy with which audits have been planned, to include a separate check to ensure that any identified risks are incorporated in the audit program. We plan to complete this effort by September 16, 2016.

Recommendation 10—Develop and implement procedures to ensure audit teams properly evaluate, document, and disclose reasons for omitting certain pertinent information from publicly released reports.

We agree that the recommendation gives us an opportunity to provide additional context to the public on why some information has been withheld. We will revise our current sensitive but unclassified (SBU) policies to include disclosing reasons for redacting certain information. We plan to complete this effort by September 16, 2016.

Recommendation 11—Implement procedures to require that auditors document departures from GAGAS and the impact on the audit and conclusions.

Recommendation 12—Implement procedures to ensure auditors disclose the appropriate GAGAS compliance statement in reports.

Recommendation 13—Revise the Handbook to comply with relevant GAGAS attestation standards when conducting engagements characterized as reviews.

We agree with these three recommendations. Our current policies require auditors to disclose any departures from GAS when conducting audits. We plan to phase out reviews as a product line; a decision the new Inspector General arrived at shortly after her confirmation. All current review work products in the pipeline will state that they were conducted in accordance with OIG internal policies—and make no reference to GAS. Going forward, we plan to initiate GAS audits to the maximum extent possible.

Thank you again for the opportunity to comment on this draft report. We appreciated your insights and the diligence of your team.

Sincerely yours,

Thomas E. Yatsco /s/
Assistant Inspector General for Audit



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



June 29, 2016

The Honorable Ann Calvaresi Barr
Inspector General
U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW.
Washington, D.C. 20523

Subject: Letter of Comment on the U.S. Agency for International Development, Office of Inspector General

Dear Ms. Calvaresi Barr:

Attached is the subject letter of comment conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. We appreciate the cooperation and courtesies extended to our staff during the review.

/s/

Phyllis K. Fong
Inspector General

Attachment



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



June 29, 2016

The Honorable Ann Calvaresi Barr
Inspector General
U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW.
Washington, D.C. 20523

We have reviewed the established audit policies and procedures of the U.S. Agency for International Development (USAID) Office of Inspector General (OIG) in effect for the year ended March 31, 2015, and have issued our report thereon dated June 29, 2016. USAID OIG received a rating of *pass with deficiencies*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report. The findings below are listed in order of the audit process: overall policies, audit planning, fieldwork, and reporting. The report concludes with the financial statement and other general findings.

Finding 1: USAID OIG Needs to Improve Policies and Procedures

We found USAID OIG did not have policies and procedures in place to ensure that internal and/or external specialists are qualified and competent. In addition, USAID OIG did not have policies and procedures in place to guide its staff on the potential removal and/or reissuance of reports that lack sufficient and appropriate evidence to support reported findings and conclusions. USAID OIG agreed that it did not have a policy in place governing how and when to hire subject matter experts to assist in conducting audits when needed. In our view, these hiring decisions would require assessing the experts' qualifications and competency. USAID OIG also noted that it did not have a final policy in place for removing and/or reissuing audit reports during the peer review period. However, on January 4, 2016, USAID OIG issued a policy memorandum, AIG/A 16-01 Guidance on Canceling Audits and Issuing Revised Reports, for rescinding and reissuing audit reports. We believe issuance of this policy memorandum addressed the missing *Generally Accepted Government Auditing Standards* (GAGAS) requirement about removing and reissuing audit reports. However, USAID OIG still lacks policy related to hiring subject matter experts. Without adequate policies and procedures in place, USAID OIG has reduced assurance that its audit organization complies with all applicable GAGAS requirements.

GAGAS requires policies and procedures for the following:

- a. The audit team should determine that external specialists assisting in performing a GAGAS audit are qualified and competent in their areas of specialization, although

external specialists are not required to meet the GAGAS Continuing Professional Education (CPE) requirements. The audit team should determine that internal specialists consulting on a GAGAS audit who are not involved in directing, performing audit procedures, or reporting on a GAGAS audit, are qualified and competent in their areas of specialization, although these internal specialists are not required to meet the GAGAS CPE requirements.

- b. If auditors discover that they did not have sufficient, appropriate evidence to support reported findings or conclusions, they should remove the report and post a public notification that the report was removed. The auditors should then determine whether additional audit work is necessary to reissue the report.

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) requires the examination and evaluation of the audit organization's established policies and procedures and practices as described to ensure the agency's system of quality control is adequately designed and provides reasonable assurance of compliance with professional standards. We found that USAID OIG did not have policies and procedures in place to ensure that internal and/or external specialists are qualified and competent. Instead, decisions on how and when to hire subject matter experts to assist in conducting audits were left to the discretion of the audit unit directors based on USAID OIG's decentralized organization. USAID OIG further explained that it had recently used subject matter experts on two audits—one for expertise regarding engineering and another for Ebola assistance.

While USAID OIG determined that subject matter experts were warranted, the development and implementation of written policies and procedures to ensure the experts are qualified and competent is required. Since USAID OIG issued a policy memorandum, AIG/A 16-01 Guidance on Canceling Audits and Issuing Revised Reports, on January 4, 2016, we are making no additional recommendations for this GAGAS requirement.

Recommendation:

1. USAID OIG should develop and implement policy and procedures to ensure that internal specialists consulting on and external specialists assisting in performing a GAGAS audit are qualified and competent in their areas of specialization.

Views of Responsible Official:

We agree with this recommendation. We will revise our existing policies to include required procedures for ensuring internal and external specialists assisting in performing audits under *Government Auditing Standards (GAS)* are qualified and competent in their areas of specialization. We plan to adopt this as a formal policy by December 31, 2016.

Finding 2: USAID OIG Needs to Improve Its System of Quality Control

We identified weaknesses in USAID OIG's system of quality control related to monitoring of quality and information system controls. *USAID OIG's Handbook* does not include a minimum requirement for annual reporting on fieldwork standards compliance nor does it include clear procedures to ensure TeamMate (TM) user profiles are established in accordance with the principle of least privilege.¹ As a result of our review work, we conclude that USAID OIG has more than a remote possibility that the system of quality control is not operating effectively and TM audit files are not safe from data loss, inaccessibility, and inappropriate or erroneous data changes.

GAGAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization. GAGAS 3.95 further states that the audit organization should analyze and summarize the results of its monitoring process at least annually. GAGAS 3.92 states that audit organizations should have policies and procedures for the safe custody and retention of audit documentation. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation.

Monitoring of Quality

To monitor, summarize, and report on quality, USAID OIG relies on a policy and editorial review of draft reports and the subsequent monthly compilation and reporting to senior management of the essential comments made on the draft reports. For the period between October 1, 2014, and March 31, 2015, USAID OIG reported 333 essential comments. However, the essential comments related to reading the audit report and did not include the review of fieldwork audit documentation supporting the audit report. Therefore, USAID OIG's monitoring of quality does not address audit fieldwork compliance, such as adequate audit planning, obtaining sufficient and appropriate audit evidence, supervisory review, or audit documentation. In addition, staff conducting the policy and editorial review of draft reports do not have immediate access to TM files² for some USAID OIG offices and are therefore unable to review fieldwork standards compliance without traveling to the foreign offices.

USAID OIG includes an internal Quality Assurance Review (QAR) as part of its quality assurance process. The QAR could be used to report fieldwork standard compliance; however, USAID OIG's policies and procedures do not require a QAR on an annual basis. QARs are to be "performed as necessary based on assessed risk." During the 3-year peer review cycle, USAID

¹ National Institute of Standards and Technology Special Publication 800-53 defines the principal of least privilege as an information system access control technique used to enforce the most restrictive set of rights/privileges or accesses needed by users for the performance of specified tasks.

² USAID OIG uses an electronic audit documentation software program called TeamMate to record and store audit documentation.

OIG only performed one QAR and overlooked completing an annual risk assessment, as required by its policies and procedures, for the years when a QAR was not performed.

Information System Controls

We found that USAID OIG TM audit files were auto-populated with group user profiles designated as project owners with administrator rights.³ These user accounts are not associated with a specific person's name that would allow the audit team to immediately determine who made a change and why it was made under these accounts. Allowing TM user profiles to include unassociated administrators increases the risk that electronic audit documentation integrity, accessibility, and retrievability may become compromised without the auditors' knowledge. The increased risk of using group user accounts can be partially mitigated by enforcing the most restrictive set of rights and privileges to those accounts.

Recommendations:

2. Update *USAID OIG's Handbook* to include monitoring, analyzing, summarizing, and reporting on the quality of audit fieldwork standards at least annually.

Views of Responsible Official:

We agree with this recommendation. We noted inconsistency in the monitoring of audit fieldwork in fiscal year (FY) 2014 during an internal quality assurance review (QAR) that year. This internal QAR was followed up by a FY 2015 internal QAR and a FY 2016 QAR is already underway, demonstrating our commitment to provide annual coverage in monitoring audit quality. We will revise our existing policies to require a QAR to be conducted at least annually. We plan to adopt this as a formal policy by December 31, 2016. Further, our Inspector General decided shortly after her confirmation to stand up a QAR office that will establish a robust and regular system of quality control.

3. Clarify and implement procedures to ensure TM user profiles are established following the principle of least privilege.

Views of Responsible Official:

We agree with this recommendation. We recently underwent an upgrade to TeamMate version 11, which provides auditors with a standard TeamMate template with auto-populated system

³ For example, USAID OIG TM projects provided administrator rights for login names such as "Champion Teammate," "HLC Admin—DO NOT DELETE," "TM Support 2—DO NOT DELETE," and "TM1 Support—DO NOT DELETE."

accounts used by the TeamMate Coordinator (first level support) and for second level technical support (in the Information Management division of OIG). The system accounts are used when team members have problems with project file access or if there is a need to restore the project file due to corruption. This new TeamMate version also provides automatic access restrictions to all users in the form of read-only access.

In the TeamMate 11 training course that all users attended in Fall 2015, the use of project roles was addressed explaining when it is appropriate to grant a team member access greater than preparer. These roles have now been defined in our audit methodology and policy documents.

We will examine and clarify the appropriate roles for each TeamMate project team member and include specific language and scenarios for when a change to a team member role is appropriate. The only persons assigned with Preparer Only, Reviewer Only, Preparer-Reviewer, or Project Owner access privileges would be auditors assigned to the OIG project. We plan to complete this effort by December 31, 2016.

Finding 3: USAID OIG Needs to Sufficiently Assess the Independence of Relevant Staff Assigned to Specific Engagements

We found that 13 of the 14 sampled audits contained audit work that was prepared or reviewed by staff that did not have a documented assessment of independence for that audit. The USAID OIG field staff stated they were either unaware of the individual independence assessment requirements; thought that the annual independence certifications were sufficient; or thought that only the core audit team members were required to complete the individual assessment, not audit management, report referencer, or other reviewers. As a result, USAID OIG had reduced assurance that the staff assigned to an engagement were independent of mind and in appearance.⁴

To address GAGAS independence requirements, USAID policy requires annual confirmation of professional independence at the beginning of each fiscal year, with the statements maintained on file in Washington, D.C.⁵ In addition, USAID OIG issued a policy memorandum on March 2, 2012, that required each auditor⁶ assigned to an audit to use the included conceptual framework checklist to assess their independence for that engagement. USAID OIG auditors use

⁴ Independence of mind is an auditor's ability to make professional judgments without those judgments being compromised by influences. Independence in appearance is an auditor's ability to demonstrate to a knowledgeable third party that his or her integrity, objectivity, and professional skepticism is not compromised.

⁵ OIG/Audit Procedures Handbook, April 2011, Part II, Ch. 1, Section M, page 9.

⁶ GAGAS 1.07a defines an "auditor" as an individual performing work in accordance with GAGAS regardless of job title. Although some of USAID OIG staff believed that only the core audit team members needed to complete an individual independence conceptual framework assessment, it is our view that all staff that prepare or review audit documentation within a specific GAGAS engagement should have an individual independence assessment completed and filed.

the conceptual framework checklist during the engagement to identify, evaluate, and apply safeguards to address threats to independence for auditors assigned to an engagement. This memo stated that these changes would be incorporated in the next *OIG Audit Handbook Revision*.⁷

USAID OIG attempted to incorporate the conceptual framework policy noted in the 2012 memorandum into its revised audit handbook, issued in December 2014. However, the revised handbook did not adequately include all requirements outlined in the memorandum. The handbook continued to require all auditors to confirm their organizational independence annually, but did not require that the conceptual framework policy be applied to all auditors assigned to an individual audit.⁸

USAID OIG policy to have every staff member annually certify that they are organizationally independent is a good practice, but a threat to independence can happen to anyone, at any time. Therefore, we concluded that USAID OIG should clarify its policies and procedures to ensure that individual independence assessments are performed and documented by all staff members who may impact the audit, e.g., report referencers and internal reviewers.

Recommendation:

4. USAID OIG should revise its conceptual framework policy to explicitly state who is required to complete and document in TM the independence assessment checklist for each engagement. In addition, USAID OIG should provide additional training on its independence policy and associated documentation requirements.

Views of Responsible Official:

We agree with this recommendation. We will revise our existing policies to require the incorporation of the conceptual framework into each audit by all relevant audit staff. We plan to adopt this as a formal policy by December 31, 2016. Once all Handbook changes are finalized and distributed, we will provide audit staff additional training on the handbook changes. We plan to complete this training by June 2017.

⁷ Assistant Inspector General for Audit (AIG/A) Memorandum 12-05, Independence.

⁸ OIG/Audit Procedures Handbook, December 2014, Part II—Statement of Professional Independence.

Finding 4: USAID OIG Auditors Need to Follow the Policies for Audit Program Approval

Our review noted that for 9 of the 13 sampled performance audits, USAID OIG auditors did not follow their audit program approval policies. Specifically, we noted that audit programs were approved prior to the completion of the planning steps, had audit steps added without being approved, and/or had fieldwork steps completed prior to the approval of the audit program.⁹

Audit programs include steps an audit team should complete during an audit. According to USAID OIG's policy, the planning steps must be completed before managers approve the audit program. The policy further states that audit unit management must formally approve the audit procedures before the fieldwork can begin.¹⁰

In many instances, problems arose when staffing changes in the regional office either led to a delay in approving the planning steps prior to approving the audit program, or resulted in the field staff not knowing why the audit program was not approved in a timely manner, prior to the start of fieldwork. Another cause included developing the audit program outside of TM with insufficient time to fully update TM to reflect changes and completion. As a result, USAID OIG did not ensure that the fieldwork steps were properly developed and approved to address the audit objectives.

However, during the period covered by our peer review, USAID OIG developed and provided training to all audit staff. We expect that this training addresses the finding and are making no recommendations for this finding.

Finding 5: USAID OIG Needs to Appropriately Evaluate the Credibility and Reliability of Testimonial Evidence

We found that 1 of the 13 performance audits reviewed did not evaluate the objectivity, credibility, and reliability of testimonial evidence. Specifically, a statement in the final audit report is written as though it is supported by documentary evidence related to parliamentary procedures. However, this statement was based on testimonial evidence without attribution to the speaking official and could not be verified or corroborated by documentary evidence. This occurred because USAID OIG did not believe that there was any reason to doubt the statement of the government official. As a result, a report reader may assume the report language is supported

⁹ Of the nine sampled performance audits that did not comply with USAID OIG audit program policies, six audits had programs approved prior to the completion of the planning steps, two audits had audit steps added without being approved, and five audits had fieldwork steps completed prior to the approval of the audit program. While the total number of noncompliant audits was nine, three audits had more than one of these noted noncompliances.

¹⁰ OIG/Audit Procedures Handbook, April 2011, Part II, Chapter 1, Section N.

by documentary evidence when it is actually supported only by testimonial evidence, thereby possibly attributing greater assurance to the validity of the statement than warranted.

GAGAS 6.62 states that testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence. Further, USAID OIG policies and procedures require that testimonial evidence be corroborated by additional evidence; otherwise, it is to be attributed to the appropriate source.

Specifically, audit report 5-388-13-006-P, “Audit of USAID/Bangladesh’s Promoting Democratic Institutions and Practices Program,” contained the following statement as one of the causes in the finding related to weaknesses in the second objective of the program: “Unfortunately, parliamentary procedures generally prevent MPs [Members of Parliament] from formally conveying policy issues directly to committees.”

To verify the accuracy of this statement, we reviewed the applicable supporting documentation in the audit file. We found that this statement was referenced to several interviews with parliamentary officials and staff. Specifically, one interview stated: “During an earlier interview with another official, the auditor had been informed that the constituent MPs were limited in their ability to raise issues with standing committees due to existing procedures, which prevent MPs (non-committee members) from raising issues directly with a committee.” The audit evidence used to support the statement in the final report is insufficient because the original statement refers to parliamentary procedures; therefore, it should be supported by documentary evidence instead of the testimonial evidence used. In addition, the audit evidence did not attribute this testimonial evidence to a specific official or provide additional details to evaluate the reliability and credibility of this evidence. At a minimum, the documentation in the audit file should have attributed this statement to a specific government official. We discussed this issue with a USAID OIG official who stated that the audit team did not believe there was any reason to doubt the statement of the government officials and explained that, unless there is some reason to question their credibility, it would be outside the scope of the audit to research the parliamentary procedures of a foreign government’s legislative body.

To ensure USAID OIG’s audit reports are supported by sufficient and appropriate evidence, USAID OIG needs to reinforce its policies and procedures for documenting testimonial evidence, including evaluating the objectivity, credibility, and reliability of the evidence.

Recommendation:

5. USAID OIG should reinforce its policies and procedures for documenting testimonial evidence, including evaluating the objectivity, credibility, and reliability of the evidence to ensure that the evidence is attributed to the appropriate source.

Views of Responsible Official:

We agree with this recommendation. We will revise the Handbook to underscore the importance of appropriate attribution. We plan to adopt this as a formal policy by December 31, 2016. Once all Handbook changes are finalized and distributed, we intend to provide audit staff additional training on all the Handbook changes. We plan to complete this training by June 2017.

Finding 6: USAID OIG's Audit Documentation Needs to Contain Appropriate Supporting Documentation

USAID OIG did not sufficiently prepare its audit documentation so that an experienced auditor could understand the work performed and results obtained to support the information presented in the final report. We attribute the exceptions noted to auditor oversight and noncompliance with USAID OIG's policies and procedures related to audit documentation and cross-indexing. In addition, independent referencing did not detect the inaccuracies or ensure that they were corrected. As a result, without sufficient and appropriate audit documentation, there is an increased risk that statements and conclusions in USAID OIG reports are not supported and/or are not accurate.

USAID OIG policies and procedures require that audit documentation should be understandable without oral explanation to an experienced auditor.¹¹ Using professional judgment, the auditor should hyperlink (cross-index) related audit documents. In addition to the audit documentation cross-indexing requirements, USAID OIG also requires independent verification, called "independent referencing," to ensure, among other things, that the contents of the report are supported by sufficient, competent, and relevant evidence in the audit documentation.¹² Each draft report must be independently referenced before being issued to agency management and changes and additions to the referenced draft report should be cross-indexed and referenced before the final report is issued.

Examples of Insufficient Audit Documentation

For 6 of the 13 sampled performance audits, USAID OIG had to provide the peer review team with additional references to support the information presented in the final report. For the instances noted in this letter of comment, USAID OIG was able to direct the peer reviewer to additional audit documentation to understand the work performed and the results obtained to support the information in the final report.¹³ As an example, the audit reports for both Sample 2

¹¹ OIG/Audit Procedures Handbook, April 2011, Part II, Chapter 5, pages 2-4.

¹² OIG/Audit Procedures Handbook, April 2011, Part II, Chapter 6, pages 20-22.

¹³ A GAGAS noncompliance was noted in instances where we determined that the facts or conclusions in the final report were unsupported or materially different than the audit documentation. These are detailed in the systems report. (See Enclosure 1.)

and Sample 3 contained instances where the audit report was cross-indexed to conflicting, outdated audit documentation. The USAID OIG audit teams provided additional clarification and references to updated audit documentation to support the facts in the final report. USAID OIG should reinforce its policies and procedures regarding audit documentation requirements and cross-indexing requirements and provide additional training to ensure that the information presented in the final report is fully supported by the cited references. In addition, USAID OIG should conduct increased monitoring over the quality of audit documentation.

Recommendation:

6. USAID OIG should reinforce its policies and procedures regarding audit documentation and cross-indexing requirements and provide additional training, if necessary, to mitigate issues with unsupported or inaccurate information.

Views of Responsible Official:

We agree with this recommendation. We developed and delivered a training course to all audit staff between April and September 2015 that specifically addressed this issue. In addition, our supervisory checklists require each audit's management team, consisting of the audit unit director and assistant director, to review each audit file and certify in writing that:

1. The Summary of work in each procedure step adequately addresses the prescribed steps in the audit program.
2. The conclusions and relevant record of work completed are adequately documented for each procedure step in the audit program.
3. Audit testing (validation work) is complete and accurate to provide proper support for findings, judgments, and conclusions.

Our FY 2015 internal QAR has shown significant improvement in this area as a result of the training and use of the supervisory checklist.

Finding 7: USAID OIG Needs to Maintain Sufficient Audit Documentation in Terminated Audit Files

During the 3-year peer review period, USAID OIG terminated three audits. For all three of these audits, USAID OIG maintained insufficient audit documentation in the audit files. Specifically, the audit files contained insufficient evidence of how the termination was communicated to those charged with governance, appropriate officials of the audited entity, and other appropriate officials. In addition, one engagement had no documentation in the audit file to show what work, if any, was done during the 307 hours charged to the assignment. This occurred because USAID OIG's policies and procedures did not describe how teams should document the results as of the termination date or the termination communication to the auditee in the audit file. As a result, the terminated audit files did not comply with GAGAS terminated audit requirements.

GAGAS 6.50 states that if an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work up to the date of termination and why

the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit, and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.

However, during the period covered by our peer review, USAID OIG policies and procedures stated that “[i]f an audit is terminated before audit work is complete, the responsible RIG/Division Director will notify the auditee in writing of the termination.” This guidance did not address documenting the results up to the date of termination or ensuring the termination communication to the auditee is included in the audit documentation. In response to our concern, USAID OIG issued a policy memorandum, AIG/A 16-01 Guidance on Canceling Audits and Issuing Revised Reports for rescinding and reissuing audit reports, on January 4, 2016. We believe this policy addresses the documentation requirement for terminated audits, and therefore we are making no additional recommendations related to terminated audits.

Finding 8: USAID OIG’s Needs to Improve Its Independent Referencing Procedures

In order to test USAID OIG’s internal, independent referencing review process, we judgmentally selected a sample of statements from 12 of the 13 sampled performance audits.¹⁴ For 11 of these 12 performance audit reports, we identified exceptions with the independent referencing review related to compliance with USAID OIG’s policies and procedures.¹⁵ This occurred for several reasons, including unclear guidance or oversight by the referencers and report reviewers. Without adequate independent referencing, there is an increased risk that an inaccurate report could be issued.

USAID OIG’s policy requires that each draft report must be independently referenced and verified before being issued to agency management; changes and additions to the referenced draft report should be cross-indexed and referenced before the final report is issued. The policy also requires the independent referencer to perform the following:

- Verify numbers and dollar amounts using the supporting audit documentation. All quantities and dollar amounts set forth in schedule form, in the report’s narrative, or shown on exhibits and schedules attached to the report, are to be footed, cross-footed, and checked against the supporting audit documentation.

¹⁴ For 1 of the 13 sampled performance audits, we did not judgmentally select statements (Sample #10). Instead, we performed other procedures to test compliance with the internal referencing review process. We did not note any exceptions related to referencing for this audit, except that the referencers did not ensure that the final report adequately explained the relationship between the sample population and the items tested.

¹⁵ OIG/Audit Procedures Handbook, April 2011, Part II, Chapter 6, pages 20-22.

- Verify factual statements by comparing them with the supporting documentation to ascertain that the statements are indeed factual and not allegations, suppositions, or conclusions.
- Verify that expert opinions as stated and the qualifications of the expert are documented.
- Evaluate the report content for compliance with the reporting standards and format requirements in the handbook including that the scope and methodology identify the amount audited and the amount tested in relation to the total amount audited.

For 3 of the 11 performance audit reports with exceptions, we noted instances where statements either changed or were added to the draft report after the initial referencing review. These revisions were not re-referenced or re-verified prior to the issuance of the final report. For one of the three audits, the audit team was able to provide us with additional references from the audit documentation to support the un-referenced revisions. However, the remaining two reports had un-referenced revisions and, as a consequence, USAID OIG issued final audit reports containing unsupported or inaccurate information.¹⁶ USAID OIG attributed this exception to an oversight by the audit team.

We also noted several exceptions related to the initial referencing. Specifically, for the 11 reports with referencing exceptions, we found that the referencer review did not:

1. Identify and note inaccurate statements, an inaccurate fieldwork start date, rounding errors, or irrelevant information. These issues related to Samples 1, 3, 5, and 6.
2. Question and note mathematical inaccuracies of supporting documentation, incomplete sampling discussion, insufficient references to evaluate the source, validity, and reliability of the information, or incomplete translations of supporting documentation. These issues related to Samples 2, 3, 4, 6, 7, 9, 11, 13, and 39.

Based on our communications with the audit team and review of USAID OIG's policy, we attributed the following as causes of our identified exceptions.

- USAID OIG guidance is unclear regarding the extent of referencing that is needed to track supporting documents to source documents. It is not clear what evidentiary support is needed when reviewing voluminous documents on site and to what extent the referencer should evaluate the reliability of the supporting evidence.

¹⁶ Sample 9 provided sufficient additional documentation, but the final reports for Samples 3 and 7 contained erroneous information.

- USAID OIG referencing review policies and procedures are insufficient to ensure that rounding and mathematical computations are verified at referencing. The policies and procedures did not ensure that the computations follow the methodology detailed in the document and whether the referencer should take into consideration any non-exceptions noted for numerical exceptions.
- USAID OIG policies do not require that the audit team's or independent referencers' changes made as a result of referencing be reflected in the supporting audit documentation.

USAID OIG needs to strengthen its independent referencing review process and conduct additional training to ensure, among other things, that the contents of the report are supported by sufficient, competent, and relevant audit documentation.

Recommendations:

7. USAID OIG should strengthen its internal referencing review guidance to ensure referencers are: (1) verifying rounding and mathematical accuracy of figures contained in the report; and (2) validating that information was referenced to the source data, including tracing a sample of compiled information to the source documents.

Views of Responsible Official:

We agree with this recommendation. As previously noted, a training course was developed and delivered to all audit staff that specifically addressed this issue. In addition to this, we will revise guidance in the Handbook to clarify a referencer's responsibilities including verifying rounding and mathematical accuracy and validating that information was referenced to the source data. We plan to adopt this as a formal policy by December 31, 2016.

8. USAID OIG should provide additional referencing training related to appropriately re-indexing and re-referencing report changes and satisfactorily verifying audit documentation.

Views of Responsible Official:

We agree with this recommendation. We will develop a training course to educate all audit staff on upcoming Handbook revisions, much of which will be in response to USDA OIG's peer review conclusions. Clarification of the role and responsibilities of the referencer will be addressed in this course. We plan to complete this newly designed training by June 2017.

Finding 9: USAID OIG Needs to Include Required Language in Its Financial Statements Engagement Letter

We reviewed USAID OIG's Audit of USAID's Financial Statements for Fiscal Years 2014 and 2013 and noted that the engagement letter did not include management's acknowledgement that

the auditors should have: “unrestricted access to entity personnel from whom the auditor determines it necessary to obtain audit evidence.”

The language was not included in the engagement letter because USAID OIG’s policies and procedures do not require the specified language and USAID OIG’s system of quality control did not identify the missing language. As a result, there is an increased risk that the USAID OIG audit may be delayed or a scope limitation may occur due to misunderstandings between management and the auditor.

American Institute of Certified Public Accountants (AICPA) AU-C Section 210 Terms of Engagement Section .06 states that in order to establish whether the preconditions for an audit are present, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility to provide the auditor with unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence (AU 210.06b(iii)(1)-AU 210.06b(iii)(3)).

Recommendation:

9. USAID OIG should ensure required language is included in financial statement audit engagement letters.

Views of Responsible Official:

We agree with the intent of this recommendation to help ensure that Agency managers are aware of their responsibility to provide auditors with unrestricted access and recognize that it is critical that we continue to have unhindered access needed during the audit. We have obtained management acknowledgement that it understands its responsibility to provide auditors with unrestricted access by other means. On February 9, 2016, our new Inspector General and the new USAID Administrator published a shared cooperation memorandum underscoring the level of commitment the agency has in sharing all information we need to carry out our independent audit coverage. In the cooperation memorandum sent agency-wide, the USAID Administrator stated, “...[I]t is so important for you to support and cooperate with the OIG. Every USAID employee has a responsibility to assist the OIG, and to respond to OIG requests in a timely and transparent manner.” A detailed memo laid out a number of the Administrator’s expectations including promptly providing materials and honoring the OIG’s requests for interviews. It is important to note that in recent years we have not encountered significant access issues during the financial statement audits.

Finding 10: USAID OIG Needs to Clarify Its Financial Statements Audit Report Conclusions

We determined that the audit of USAID’s Financial Statements for Fiscal Years 2014 and 2013 reported unclear conclusions in the Report on Internal Control over Financial Reporting (Report on Internal Control) and Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements (CLR). As a result, financial statement report users are not informed of financial management information system deficiencies and are not provided a clear conclusion on USAID’s compliance with the Federal Financial Management

Improvement Act of 1996 (FFMIA). USAID OIG disagrees with our assessment and asserted the report conclusions were reported in compliance with relevant standards and regulations.

The Report on Internal Control included no conclusions regarding a significant deficiency related to financial management information system control weaknesses that USAID OIG reported in the Federal Information Security Management Act of 2002 (FISMA) report. USAID OIG asserted that it did not include this deficiency in the Report on Internal Control because the deficiency was sufficiently communicated in the CLR and FISMA report. However, the deficiency should be reported in both reports.

The CLR reported substantial compliance with FFMIA based on tests of compliance with FFMIA Section 803(a) in one conclusion, but also reported substantial noncompliance with FFMIA based on the significant deficiency reported in the FISMA report. USAID OIG stated that it reported the two conclusions in the CLR because it intended to provide clarity and comply with the two different pieces of legislation, FFMIA and FISMA. However, the two conclusions contradict one another and result in an unclear conclusion on FFMIA compliance.

Internal Control Report Conclusion

USAID OIG used the FISMA-defined significant deficiency¹⁷ to specifically identify noncompliance with FFMIA but did not document an assessment of whether or how the FISMA significant deficiency translates to a financial statement significant deficiency.¹⁸ This undocumented assessment is already noted within deficiency number 3 in the system review report. USAID OIG asserts that it met the requirement to communicate financial statement audit-defined significant deficiencies in the Report on Internal Control by including the FISMA significant deficiency in the CLR.

The FISMA report noted that a number of information system weaknesses existed that, if exploited, could adversely impact the confidentiality, integrity, and availability of USAID's data and information systems and could ultimately have a negative impact on the agency's ability to protect the security of its information or information systems. Accordingly, USAID's financial

¹⁷ The significant deficiency as reported in the FISMA report is not defined the same as a significant deficiency for financial statement reporting. A significant deficiency, as defined by Office of Management and Budget (OMB) Memorandum M-12-20, *FY 2012 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management*, is a weakness in an agency's overall information systems security program or management control structure, or within one or more information systems that significantly restricts the capability of the agency to carry out its mission or compromises the security of its information, information systems, personnel, or other resources, operations, or assets.

¹⁸ AICPA AU-C 265.07 defines a financial auditing significant deficiency 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. It defines a deficiency as a deficiency in internal control that exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

management systems are at risk of not being able to provide management with the tools to prevent, or detect and correct, misstatements on a timely basis.

GAGAS 4.23 states that when performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, significant deficiencies and material weaknesses in internal control. GAGAS 4.24 states that AU-C Section 265 forms the basis for reporting significant deficiencies in the GAGAS report on internal control over financial reporting when deficiencies are identified during the audit. AU-C 265 states that the auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit.

CLR Report Conclusion

USAID OIG concluded in the CLR that “We did not observe any exceptions that we considered substantial noncompliance with FFMIA.” In the next paragraph, USAID OIG concluded: “However, we reported one significant deficiency in USAID’s annual FISMA audit report dated October 30, 2014, and as required by OMB Bulletin 14-02, Audit Requirements for Federal Financial Statements, we also report this deficiency as an instance of substantial noncompliance with FFMIA.” USAID OIG management responded that the reason for the two conclusions was an effort to provide clarity and comply with the two different pieces of legislation. Therefore, USAID OIG presented the results in two separate paragraphs. However, the two conclusions contradict one another and result in an unclear conclusion on FFMIA compliance.

OMB 14-02 7.24 states that to meet the requirement in Section 803(b), the audit report will reflect instances in which the reporting entity’s systems did not substantially comply with any of the three Section 803(a) requirements, or state that the audit disclosed no instances in which the reporting entity's systems did not comply with Section 803(a). In addition, OMB Circular A-127 states that the Section 803(a) Federal financial management system requirements consist of three parts, one of which is computer security requirements. The USAID OIG report on FISMA noted a significant deficiency to enterprise-wide security. Accordingly, USAID did not substantially comply with Section 803(a) requirements. This contradicts the initial conclusion reported that USAID OIG did not observe any substantial noncompliance with FFMIA based on Section 803(a) tests performed.

As a result of unclear report conclusions, users of the financial statement audit report may not be adequately informed of information system weaknesses and FFMIA noncompliance. It is reasonably possible that report users may not be able to take effective corrective actions or make informed business decisions.

Recommendation:

10. USAID OIG should ensure significant deficiencies and compliance conclusions are clearly reported in accordance with applicable standards and regulations.

Views of Responsible Official:

We agree with the intent of this recommendation as our purpose is to clearly report on significant deficiencies and compliance conclusions. While we believe that we met all reporting requirements, we will reassess how these conclusions are presented in the FY 2016 financial statement report to ensure clarity for readers.

Finding 11: USAID OIG Needs to Include Required Language When Referring to the Work of Another Auditor

USAID OIG's Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements did not include required language to be used when referring to the FISMA audit work performed by an Independent Public Accountant (IPA). Specifically, the report states:

However, we reported one significant deficiency in USAID's annual FISMA audit report dated October 30, 2014, and as required by OMB Bulletin 14-02, "Audit Requirements for Federal Financial Statements," we also report this deficiency as an instance of substantial noncompliance with FFMA.

USAID OIG asserted the report language does not need to be modified, because it does not believe AU-C 600.28 is applicable. As a result, report users are not informed about which auditor is responsible for the audit engagement.

AICPA AU-C 600.28 states that when the group engagement partner decides to make reference to the audit of a component auditor in the auditor's report on the group financial statements, the report on the group financial statements should clearly indicate "... [t]hat the component was not audited by the auditor of the group financial statements but was audited by the component auditor." In addition, AU-C 600.A62 states that when the auditor of the group financial statements is assuming responsibility for the work of a component auditor, no reference is made to the component auditor in the report on the group audit because to do so may cause a reader to misinterpret the degree of responsibility being assumed.

Recommendation:

11. USAID OIG should ensure appropriate language is used in the report to accurately reflect auditor responsibilities.

Views of Responsible Official:

We agree with the intent of this recommendation as an opportunity exists to provide greater clarity on reported responsibilities within our audit reports. We will review the current disclosures provided in the Federal Information Security Management Act and financial statement audit reports and determine what revisions may need to be made. We plan to complete this effort by December 31, 2016.

Finding 12: USAID OIG Needs to Document Why Audit Documentation is Modified After the Report Date

We reviewed USAID OIG's Financial Statements Audit of USAID, Audit Report 0-000-15-001-C, and noted that the auditors did not document a reason for modifications made to audit documentation after the documentation completion date, defined as 60 days after the report issuance date.

The financial statement audit was released on November 17, 2014, so the documentation completion date was January 16, 2015. The management letter was updated in TM on March 30, 2015, and the audit document explaining the reasons for the OIG's opinion on the fiscal year (FY) 2014 financial statements was first edited and inserted into TM on February 23, 2015. Each of these audit documents was updated after January 16, 2015. As a result, reviewers of audit documentation will not be able to determine the reason for modifications or if the modifications were appropriate.

USAID OIG's existing procedures do not clearly require auditors to document reasons for modifying audit documentation after the documentation completion date.

AICPA AU-C 230.18 states that in circumstances in which the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the documentation completion date, the auditor should, regardless of the nature of the modifications or additions, document the specific reasons for making the changes, and when and by whom they were made and reviewed. AICPA AU-C 230.06 defines the documentation completion date as no later than 60 days following the report release date, on which date the auditor has assembled for retention a complete and final set of documentation in an audit file.

Recommendation:

12. USAID OIG should ensure auditors document the reasons for modifying documentation after the documentation completion date.

Views of Responsible Official:

We agree with this recommendation. We will issue policy guidance clarifying how auditors should document the reasons for modifying documentation after the documentation completion date. We plan to complete this corrective action by December 31, 2016.

Finding 13: USAID OIG Needs to Modify Its Nonaudit Service Report Language

USAID OIG did not clearly represent that some nonaudit service reports were not audits conducted in compliance with GAGAS. USAID OIG's policies and procedures do not require language in these reports stating that the work performed did not constitute an audit conducted in accordance with GAGAS. As a result, USAID OIG risks misleading stakeholders on the level of assurance being provided on the products being issued.

GAGAS 2.12 defines nonaudit services as professional services other than audits or attestation engagements. GAGAS requires that audit organizations communicate with requestors and those charged with governance to clarify that the nonaudit work performed does not constitute an audit conducted in accordance with GAGAS.

USAID OIG issues a number of report products that are not GAGAS audits or attestation engagements. In the 1 year of the peer review sample period, USAID OIG issued 2 “Limited Scope Reviews” and 21 Quality Control Reviews. In discussions with USAID OIG officials, they stated that these types of reports were not audits conducted in accordance with GAGAS. USAID OIG’s policies and procedures do not address Limited Scope Reviews and do not specify standard language to be used in the Quality Control Review reports. We reviewed one of each type of report and found that neither report contained any statement that the work was not done in compliance with GAGAS, nor do the reports cite compliance with any standards. Clearly conveying GAGAS compliance or noncompliance is especially critical when a GAGAS performing organization uses terminology specifically defined by GAGAS, such as “review.”¹⁹

In addition, in the 1 year of the peer review sample period, USAID OIG listed 390 agency-contracted and recipient-contracted audits in its Semiannual Reports to Congress. USAID OIG’s policies and procedures require that recipient-contracted and agency-contracted audit reports’ transmittal memoranda state that “OIG reviewed the audit report and found it in accordance with GAGAS and the OIG Guidelines.”

We reviewed 13 of the 15 sampled agency-contracted and recipient-contracted²⁰ audit reports’ transmittal memoranda, and found that 12 of the 13 contained a variation of the statement contained in USAID OIG’s policies and procedures. Asserting that USAID OIG verified that the report was in compliance with GAGAS implies that USAID OIG did additional work to ensure the IPAs complied with GAGAS except for the exceptions noted; however, by only reviewing the audit report, USAID OIG does not perform enough work to be able to make this assertion.

USAID OIG is conveying a greater degree of responsibility with respect to the overall monitoring of these agency-contracted and recipient-contracted audits. To ensure stakeholders

¹⁹ GAGAS 2.09b states that a review consists of sufficient testing to express a conclusion about whether any information came to the auditors’ attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. Auditors should not perform review-level work for reporting on internal control or compliance with provisions of laws and regulations.

²⁰ Agency-contracted engagements are coded “N.” We sampled 4 “N” engagements from a universe of 81 for the 1-year sampling period. Recipient-contracted engagements are coded “E,” “O,” and “R.” We sampled 11 of these types of engagements from a universe of 309 in the 1-year sample period. We did not review two of the nine sampled “R” transmittal memos, as we encountered technical difficulties gaining access to the TM file, which we did not attempt to remedy since we had sufficient evidence to show that the transmittal memoranda for these products were using the language prescribed by USAID OIG’s policies and procedures.

are not misled, USAID OIG should revise its policies and procedures related to nonaudit service reports.

Recommendations:

13. For nonaudit service products, USAID OIG should clearly state that the product is not an audit conducted in accordance with GAGAS.

Views of Responsible Official:

We agree with this recommendation. We will revise our policy guidance to require such a distinction. We plan to adopt this as a formal policy by December 31, 2016.

14. USAID OIG should modify its policies and procedures regarding the required language for the agency- and recipient-contracted audits to comply with reporting standards.

Views of Responsible Official:

We agree with this recommendation and will modify the language on the transmittal memoranda to clarify the work we perform. We plan to adopt this as a formal policy by December 31, 2016.

Finding 14: USAID OIG Needs to Improve Its Independent Public Accountant (IPA) Monitoring

In addition to reviewing its system of quality control to ensure adherence to *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by CIGIE related to USAID OIG's monitoring of audit work performed by IPAs under contract, where the IPA served as the auditor.

Our review noted that USAID OIG did not adequately review the IPA's audit documentation and reports for adherence to GAGAS for one of the three IPA monitoring audits we sampled. This occurred because USAID OIG had not established sufficient policies and procedures detailing how contracted performance audits by IPAs should be monitored, documented, and reported. Without clear guidance, there is reduced assurance that USAID OIG meets the Inspector General Act of 1978 (IG Act) requirements to ensure its contracted auditors comply with GAGAS.

The IG Act, as amended, requires IGs to establish guidelines for determining when it shall be appropriate to use non-Federal auditors, and take appropriate steps to assure that any work performed by non-Federal auditors complies with GAGAS.

We concluded that USAID OIG monitoring and review of the FY 2014 Federal Information Security Management Act of 2002 (FISMA) performance audit did not: (1) identify a GAGAS reporting noncompliance by the IPA,²¹ (2) fully execute its monitoring plan as written, and (3) demonstrate adequate supervision to ensure the contracting officer's representative (COR) activities were complete. To correct these concerns, we recommended that USAID OIG strengthen its monitoring procedures to include developing specific policies and procedures to address the concerns identified and ensure adequate supervision.

In response, USAID OIG officials stated that they began implementing corrective actions. Specifically, officials stated that they were reviewing the COR activities for the FY 2015 FISMA audit to ensure a similar GAGAS issue does not occur. In addition, USAID OIG implemented a supervisory review checklist to prevent audit steps from being incompletely/incorrectly answered. Finally, USAID OIG stated that clearer guidance is needed and will update its guidance to include specific language that should be included in transmittal letters for IPA-conducted performance audits to clarify OIG's oversight responsibilities.

Recommendation:

15. USAID OIG should assess whether it needs to develop additional policies and procedures related to IPA monitoring of performance audits. Based on this assessment, USAID OIG needs to update its policies and procedures to incorporate those additional sections.

Views of Responsible Official:

We agree with this recommendation. We will assess what additional policies and procedures may be needed to strengthen independent public accounting firms' monitoring of performance audits and update our policies and procedures accordingly. We plan to complete this effort by December 31, 2016.

/s/

Phyllis K. Fong
Inspector General

²¹ We found that the FISMA report insufficiently illustrated the population associated with the findings, as required. Reporting the population gives the reader a basis for judging the prevalence and consequences of the findings.

USAID OIG's Response



Office of Inspector General

June 23, 2016

The Honorable Phyllis K. Fong
Inspector General
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, D.C. 20250

Dear Ms. Fong:

Thank you for your office's thorough and insightful peer review of USAID OIG's system of audit quality controls. We take the results of the peer review seriously, and are working diligently to address the concerns identified in the system report and to quickly and efficiently incorporate the letter of comment recommendations into our revised audit policies and practices.

While your office determined that USAID OIG, for the year ending March 31, 2015, had suitably designed and complied with its system of quality controls to provide reasonable assurance that our audit performance and reporting conformed with applicable standards in all material respects, addressing the deficiencies you identified in our *pass with deficiencies* rating will be critical to our independence and work.

Since I took office in late November 2015, I have focused on and implemented actions to improve our office's quality and adherence to government auditing standards. Notably, within months of my confirmation, I announced plans to stand up a quality assurance division reporting to the Deputy Inspector General to conduct annual quality assurance reviews of our audit office and other OIG functions. I also worked to develop a February 2016 cooperation memorandum with the USAID Administrator to ensure my auditors and investigators have full access to the documentation and people they need to carry out our mission. We have recognized the need for additional actions to improve the quality of our audits. In fact, our most recent internal quality assurance review identified several of the same areas for improvement you noted—a number of which we have already taken action on, including developing and implementing supervisory checklists. I also plan to significantly enhance our internal training program.

It is my personal aim to ensure USAID OIG becomes a model oversight organization and maintains the highest standards of independence and integrity. USAID OIG's insights into how we can improve will factor greatly into my efforts to achieve this goal.

Sincerely,

Ann Calvaresi Barr /s/
Inspector General



Office of Inspector General

June 23, 2016

Gil H. Harden
Assistant Inspector General for Audit
U.S. Department of Agriculture
Office of Inspector General
1400 Independence Avenue SW
Washington, D.C. 20250

Subject: Response to Letter of Comment on the U.S. Agency for International Development, Office of Inspector General

Dear Mr. Harden:

Attached is the U.S. Agency for International Development (USAID) Office of Inspector General's (OIG) response to the subject draft letter of comment. I would like to thank the U.S. Department of Agriculture (USDA) OIG peer review team for its diligent work and feedback during this peer review. We plan to incorporate your letter of comment recommendations into our revised audit procedures and practices. Below lists the specific steps we plan to take in response to each of the 15 recommendations:

Recommendation 1. USAID OIG should develop and implement policy and procedures to ensure that internal specialists consulting on and external specialists assisting in performing a GAGAS audit are qualified and competent in their areas of specialization.

We agree with this recommendation. We will revise our existing policies to include required procedures for ensuring internal and external specialists assisting in performing audits under *Government Auditing Standards (GAS)* are qualified and competent in their areas of specialization. We plan to adopt this as a formal policy by December 31, 2016.

Recommendation 2. Update *USAID OIG's Handbook* to include monitoring, analyzing, summarizing, and reporting on the quality of audit fieldwork standards at least annually.

We agree with this recommendation. We noted inconsistency in the monitoring of audit fieldwork in fiscal year (FY) 2014 during an internal quality assurance review (QAR) that year. This internal QAR was followed up by a FY 2015 internal QAR and a FY 2016 QAR is already underway, demonstrating our commitment to provide annual coverage in monitoring audit quality. We will revise our existing policies to require a QAR to be conducted at least annually. We plan to adopt this as a formal policy by December 31, 2016. Further, our Inspector General decided shortly after her confirmation to stand up a QAR office that will establish a robust and regular system of quality control.

Recommendation 3. Clarify and implement procedures to ensure TM user profiles are established following the principle of least privilege.

We agree with this recommendation. We recently underwent an upgrade to TeamMate version 11, which provides auditors with a standard TeamMate template with auto-populated system accounts used by the TeamMate Coordinator (first level support) and for second level technical support (in the Information Management division of OIG). The system accounts are used when team members have problems with project file access or if there is a need to restore the project file due to corruption. This new TeamMate version also provides automatic access restrictions to all users in the form of read-only access.

In the TeamMate 11 training course that all users attended in Fall 2015, the use of project roles was addressed explaining when it is appropriate to grant a team member access greater than preparer. These roles have now been defined in our audit methodology and policy documents.

We will examine and clarify the appropriate roles for each TeamMate project team member and include specific language and scenarios for when a change to a team member role is appropriate. The only persons assigned with Preparer Only, Reviewer Only, Preparer-Reviewer, or Project Owner access privileges would be auditors assigned to the OIG project. We plan to complete this effort by December 31, 2016.

Recommendation 4. USAID OIG should revise its conceptual framework policy to explicitly state who is required to complete and document in TM the independence assessment checklist for each engagement. In addition, USAID OIG should provide additional training on its independence policy and associated documentation requirements.

We agree with this recommendation. We will revise our existing policies to require the incorporation of the conceptual framework into each audit by all relevant audit staff. We plan to adopt this as a formal policy by December 31, 2016. Once all Handbook changes are finalized and distributed, we will provide audit staff additional training on the handbook changes. We plan to complete this training by June 2017.

Recommendation 5. USAID OIG should reinforce its policies and procedures for documenting testimonial evidence, including evaluating the objectivity, credibility, and reliability of the evidence to ensure that the evidence is attributed to the appropriate source.

We agree with this recommendation. We will revise the Handbook to underscore the importance of appropriate attribution. We plan to adopt this as a formal policy by December 31, 2016. Once all Handbook changes are finalized and distributed, we intend to provide audit staff additional training on all the Handbook changes. We plan to complete this training by June 2017.

Recommendation 6. USAID OIG should reinforce its policies and procedures regarding audit documentation and cross-indexing requirements and provide additional training, if necessary, to mitigate issues with unsupported or inaccurate information.

We agree with this recommendation. We developed and delivered a training course to all audit staff between April and September 2015 that specifically addressed this issue. In addition, our supervisory checklists require each audit's management team, consisting of the audit unit director and assistant director, to review each audit file and certify in writing that:

1. The summary of work in each procedure step adequately addresses the prescribed steps in the audit program.
2. The conclusions and relevant record of work completed are adequately documented for each procedure step in the audit program.
3. Audit testing (validation work) is complete and accurate to provide proper support for findings, judgments, and conclusions.

Our FY 2015 internal QAR has shown significant improvement in this area as a result of the training and use of the supervisory checklist.

Recommendation 7. USAID OIG should strengthen its internal referencing review guidance to ensure referencers are: (1) verifying rounding and mathematical accuracy of figures contained in the report; and (2) validating that information was referenced to the source data, including tracing a sample of compiled information to the source documents.

We agree with this recommendation. As previously noted, a training course was developed and delivered to all audit staff that specifically addressed this issue. In addition to this, we will revise guidance in the Handbook to clarify a referencer's responsibilities including verifying rounding and mathematical accuracy and validating that information was referenced to the source data. We plan to adopt this as a formal policy by December 31, 2016.

Recommendation 8. USAID OIG should provide additional referencing training related to appropriately re-indexing and re-referencing report changes and satisfactorily verifying audit documentation.

We agree with this recommendation. We will develop a training course to educate all audit staff on upcoming Handbook revisions, much of which will be in response to USDA OIG's peer review conclusions. Clarification of the role and responsibilities of the referencer will be addressed in this course. We plan to complete this newly designed training by June 2017.

Recommendation 9. USAID OIG should ensure required language is included in financial statement audit engagement letters.

We agree with the intent of this recommendation to help ensure that Agency managers are aware of their responsibility to provide auditors with unrestricted access and recognize that it is critical that we continue to have unhindered access needed during the audit. We have obtained management acknowledgement that it understands its responsibility to provide auditors with unrestricted access by other means. On February 9, 2016, our new Inspector General and the new USAID Administrator published a shared cooperation memorandum underscoring the level of commitment the agency has in sharing all information we need to carry out our independent audit coverage. In the cooperation memorandum sent agency-wide, the USAID Administrator stated, "...[I]t is so important for you to support and cooperate with the OIG. Every USAID employee has a responsibility to assist the OIG, and to respond to OIG requests in a timely and transparent manner." A detailed memo laid out a number of the Administrator's expectations including promptly providing materials and honoring the OIG's requests for interviews. It is important to note that in recent years we have not encountered significant access issues during the financial statement audits.

Recommendation 10. USAID OIG should ensure significant deficiencies and compliance conclusions are clearly reported in accordance with applicable standards and regulations.

We agree with the intent of this recommendation as our purpose is to clearly report on significant deficiencies and compliance conclusions. While we believe that we met all reporting requirements, we will reassess how these conclusions are presented in the FY 2016 financial statement report to ensure clarity for readers.

Recommendation 11. USAID OIG should ensure appropriate language is used in the report to accurately reflect auditor responsibilities.

We agree with the intent of this recommendation as an opportunity exists to provide greater clarity on reported responsibilities within our audit reports. We will review the current disclosures provided in the Federal Information Security Management Act and financial statement audit reports and determine what revisions may need to be made. We plan to complete this effort by December 31, 2016.

Recommendation 12. USAID OIG should ensure auditors document the reasons for modifying documentation after the documentation completion date.

We agree with this recommendation. We will issue policy guidance clarifying how auditors should document the reasons for modifying documentation after the documentation completion date. We plan to complete this corrective action by December 31, 2016.

Recommendation 13. For nonaudit service products, USAID OIG should clearly state that the product is not an audit conducted in accordance with GAGAS.

We agree with this recommendation. We will revise our policy guidance to require such a distinction. We plan to adopt this as a formal policy by December 31, 2016.

Recommendation 14. USAID OIG should modify its policies and procedures regarding the required language for the agency- and recipient-contracted audits to comply with reporting standards.

We agree with this recommendation and will modify the language on the transmittal memoranda to clarify the work we perform. We plan to adopt this as a formal policy by December 31, 2016.

Recommendation 15. USAID OIG should assess whether it needs to develop additional policies and procedures related to IPA monitoring of performance audits. Based on this assessment, USAID OIG needs to update its policies and procedures to incorporate those additional sections.

We agree with this recommendation. We will assess what additional policies and procedures may be needed to strengthen independent public accounting firms' monitoring of performance audits and update our policies and procedures accordingly. We plan to complete this effort by December 31, 2016.

Thank you again for the opportunity to comment on this letter. We appreciated your thorough insights and the professionalism of your staff.

Sincerely yours,

Thomas E. Yatsco /s/
Assistant Inspector General for Audit