



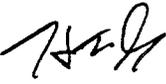
United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

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OCT 15 2010

INFORMATION MEMO FOR THE SECRETARY

FROM: OIG – Harold W. Geisel 

SUBJECT: Office of Inspector General Peer Review

Attached is a copy of a report released this week by the NASA OIG that presents the results of their peer review of the State Department Office of Inspector General's audit organizations. Generally accepted government auditing standards (GAGAS) require OIG organizations that perform audits or attestation engagements to have an appropriate system of quality control and to undergo external peer reviews at least once every 3 years. State OIG's response to NASA (Exhibit B to the NASA report) is included as a part of the external peer review report and describes the actions taken and actions planned for 2011 to address the reported deficiencies. Both the report and OIG's response will be posted on OIG's website.

NASA OIG opined that the system of quality control for State OIG's audit organizations in effect for the year ending September 30, 2009, although suitably designed, was not consistently followed by one of State's two audit divisions – OIG's Middle East Regional Office (MERO). Consequently, State OIG received a peer review rating of *pass with deficiencies*. Most of the NASA OIG recommendations focused on MERO's processes and procedures and will result in OIG changing the GAGAS reports to assessment reports. It should be noted, however, that the Department concurred with all 10 of the recommendations cited in the three MERO reports included in the peer review, and 9 of those recommendations have been fully implemented.

In my October 8, 2010, response to NASA OIG's draft report, I acknowledged that, for the period reviewed, MERO did not consistently follow OIG's audit organization system of quality control, and generally concurred with the report's recommendations. I have taken, or plan to take in 2011, three

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management actions to ensure that OIG receives a *pass with no deficiencies* opinion on our next peer review. Specifically, in the summer of 2009, I directed an internal quality control review of MERO's "Review of Diplomatic Security's Management of Personal Protective Services in Iraq." The review found deficiencies in MERO's system of quality control, and remedial actions were taken to address the cited deficiencies in October 2009 – two months before NASA began work on its peer review. In July 2010, when NASA OIG briefed my staff on its potential findings, I immediately shifted responsibility for all GAGAS audits in the MERO region to the Office of Audits. This action was directed three months before the NASA peer review was finalized.

Finally, in September 2010, I directed that all MERO activities and functions merge within the Office of Audits, effective October 1, 2011, ensuring that only one office within OIG issues GAGAS reports. This internal reorganization will not disrupt MERO's work or change its mission and will result in strengthening our quality control system through adherence to a single standard. OIG staff and personnel will continue to be based in Baghdad, Islamabad, Kabul, Amman, Cairo, and Washington, D.C.

I remain committed to maintaining "boots on the ground" in contingency areas as long as necessary. We will work to ensure the October 2011 merger of MERO into the Office of Audits is seamless. Our work in the MERO region will not change; we will still provide timely, accurate, and relevant reports that are responsive to the needs of the Congress and the Department.

I hope this memorandum answers any questions you may have regarding the peer review and the subsequent internal realignment. Should you have any questions on this matter, please feel free to contact me at 202-663-0361, or have your staff contact Siobhan Hulihan, Executive Assistant, at 202-663-0366 or at hulihans@state.gov.

Attachment: As stated.

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Drafted by: ^{SH}OIG: Siobhan Hulihan
10/15/10 Ext. 663-0366

Clearance: ^{EH}OGC: EHart

National Aeronautics and Space Administration

Office of Inspector General
Washington, DC 20546-0001



October 12, 2010

Report No. IG-11-002

The Honorable Harold W. Geisel
Deputy Inspector General
U.S. Department of State
Office of Inspector General
Suite 8100, SA-3
2121 Virginia Avenue, NW
Washington, D.C. 20037

Dear Ambassador Geisel:

We have reviewed the system of quality control for the Department of State and Broadcasting Board of Governors (State), Office of Inspector General (OIG), Office of Audits (OA) in effect for the year ended September 30, 2009. The elements of quality control are described in the *Generally Accepted Government Auditing Standards* (GAGAS) July 2007 Revision (GAO-07-731G). State OIG is responsible for designing and complying with a system of quality control to provide reasonable assurance that it is performing and reporting in conformity with applicable professional standards in all material respects.

Our review was conducted in accordance with GAGAS and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed State OIG personnel and obtained an understanding of the nature of the State OIG audit organization and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with State OIG's system of quality control. The engagements selected represented a reasonable cross-section of State OIG's audit organization, with emphasis on higher-risk engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

See Exhibit A (pages 10-11) of this letter for a description of our scope and methodology, including the State OIG office that we visited and the engagements that we reviewed. See Exhibit B (pages 12-15) for your comments.

There are inherent limitations in the effectiveness of any system of quality control; 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.

Our responsibility is to express an opinion on the design of the system of quality control and State OIG's compliance therewith based on our review. We believe the process we followed and the procedures we performed provide a reasonable basis for our opinion.

In our opinion, the system of quality control for State OIG's audit organization in effect for the year ended September 30, 2009, although suitably designed, was not consistently followed in one of State's two audit divisions. Consequently, State OIG has received a peer review rating of *pass with deficiencies*.¹

Organizational Structure

State OIG has two audit divisions: the domestic division, which has two locations (Washington, D.C., and Rosslyn, Virginia), and a separate division for overseas audits called the Middle East Regional Office (MERO). The domestic Office of Audits has four divisions: Audit Teams; Financial Statement Audits; Information Technology Audits; and Quality Control, Planning and Administrative Support. MERO was created on January 23, 2008, and has locations in Amman, Jordan; Cairo, Egypt; Baghdad, Iraq; and Kabul, Afghanistan. State OIG has two Assistant Inspectors General (AIGs) for auditing: one leads the domestic Office of Audits and the other leads MERO. The MERO AIG told us that when his division was first created, he had planned to develop a separate audit manual for MERO. However, this manual was never developed. In April 2009, State's Acting Inspector General directed MERO to adopt the manual used by the domestic Office of Audits. Consequently, MERO auditors conducting reviews between January 2008 and April 2009 were operating with no officially documented audit policy.

MERO Deficiencies in Complying with a System of Quality Control

1. Lack of Documented Evidence in Support of Audit Conclusion – We did not always find documented evidence to support audit conclusions. GAGAS requires that auditors determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for findings and conclusions. The State OIG Office of Audits' audit manual states that evidence is sufficient and appropriate when it provides a reasonable assurance that the findings or conclusions are supported within the context of the audit objectives.

We determined for one MERO report that the evidence contained in the audit files did not support audit conclusions. Specifically, the audit documentation for the report was inadequate and finding summaries were often incomplete (MERO-IQO-09-02, "Review of Diplomatic Security's Management of Personal Protective Services in Iraq," January 9, 2009). We also identified two deficiencies in another report: (1) audit steps were not cross-indexed to supporting work papers; and (2) auditors did not consistently follow State OIG's quality control policies and procedures for performance audits (MERO-A-09-10,

¹ Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*.

“Performance Audit of Embassy Baghdad’s Transition Planning for a Reduced United States Military Presence in Iraq,” August 19, 2009).

In addition, for two reports we found MERO did not complete quality control checklists or provide other evidence of a comprehensive quality control review to ensure the audits complied with GAGAS (“Review of Diplomatic Security’s Management of Personal Protective Services in Iraq,” MERO-IQO-09-02, January 9, 2009, and “Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq,” MERO-IQO-09-03, April 30, 2009).

According to MERO officials, its auditors did not include the elements discussed above in work papers because MERO did not begin to follow the State OIG Office of Audits’ or any other written audit manual until April 2009. Accordingly, we could not determine whether MERO audit conclusions were adequately supported by documented evidence in accordance with GAGAS.

Recommendation 1: We recommend that the State Deputy Inspector General examine all audit reports issued by MERO since its creation in January 2008 to September 30, 2009, to assess whether the findings, conclusions, and recommendations are adequately documented and supported in accordance with GAGAS. Further, we recommend that the State OIG retract any report that fails to meet GAGAS standards.

View of State OIG Official: Concur. At the time the reviewed audits were in process, MERO was still hiring and training staff, opening offices, and developing its internal control policies and procedures. MERO acknowledges that because of these circumstances and congressional and Department mandates to quickly provide audit coverage, its work papers were technically incomplete. We note that the Department concurred with the three reports’ 10 recommendations and has completed implementation of nine. Since the reports have been completed and the recommendations have been implemented, it would not be a good use of our limited resources to examine all the reports and assess whether the findings, conclusions, and recommendations are adequately documented and supported in accordance with GAGAS. In lieu of doing an assessment, OIG will convert all eight GAGAS reports to assessment reports and will notify all recipients.

NASA OIG Comments: We consider the proposed action responsive to the intent of our recommendation. In addition to notifying all recipients of the 8 reports that the work either was not or may not have been conducted in accordance with GAGAS standards, State OIG should note the reports’ reclassification as assessment reports on its Web site or wherever the reports are publicly available.

2. Inadequate Evidence of Staff Supervision – We did not consistently find consistent evidence of adequate supervision of MERO staff. According to GAGAS, supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable standards. In addition, the State OIG Office of Audits’ audit manual states that it is the responsibility of the audit manager to document evidence of reviews to show that the project has met supervision standards. Three reports we examined (MERO-IQO-09-02, “Review of Diplomatic Security’s Management of Personal Protective

Services in Iraq,” January 9, 2009; MERO-IQO-09-03, “Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq,” April 30, 2009; and MERO-A-09-10, “Performance Audit of Embassy Baghdad’s Transition Planning for a Reduced United States Military Presence in Iraq,” August 19, 2009) lacked adequate evidence of supervision of staff. Specifically, the level of direction and supervision of staff was inadequately documented in the work paper files. In addition, MERO staff signed and dated almost none of the work papers to indicate they were prepared and ready for review nor did supervisors sign and date the work papers to indicate they had been reviewed.

MERO officials attributed this deficiency to the fact that prior to April 2009, when MERO adopted the State OIG Office of Audits’ audit manual, MERO work paper methodology did not provide consistent, reliable evidence of work paper preparation and supervisory review. As a result, MERO did not comply with GAGAS requirements for supervision during the period covered by this peer review.

Recommendation 2: We recommend that the State Deputy Inspector General ensure proper supervisory review and signoff of work papers prior to report issuance, in accordance with the State OIG audit policies and GAGAS requirements.

View of State OIG Official: Concur. The recent hiring of MERO’s GS-15 office directors in Washington (DC), Baghdad, Cairo, Kabul, and Islamabad will significantly facilitate the teaching, coaching, and mentoring of MERO’s newly hired staff and ensure supervisory review and signoff of work papers. The development and adoption of MERO’s Project Documentation Set provides guidance on the process and required documentation for all MERO evaluations to meet compliance with the quality standards.

NASA OIG Comments: We consider State OIG’s actions to be responsive to our recommendation.

Insufficient Documentation of Audit Planning – We did not find sufficient documented evidence to give reasonable assurance that MERO adequately planned its audits. GAGAS requires that auditors must adequately plan and document the planning of work necessary to address audit objectives. The State OIG Office of Audits’ manual lists several elements that audit teams must document in their audit work paper files to ensure adequate planning of audits, including assessing the risks of fraud, assessing internal controls, documenting relevant laws and regulations, and documenting the audit’s scope and methodology. Based on our review, we concluded that MERO did not consistently include documentation to provide assurance that its audits were adequately planned.

In two of the three MERO reports we examined (MERO-IQO-09-02, “Review of Diplomatic Security’s Management of Personal Protective Services in Iraq,” January 9, 2009, and MERO-IQO-09-03, “Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq,” April 30, 2009), the audit methodology was not adequately documented. Specifically, we did not find audit steps in the work paper summaries demonstrating that the audit team had designed the methodology to obtain sufficient, appropriate evidence to address the audit objectives or provide reasonable assurance that the evidence was sufficient and appropriate to support the auditors’ findings and conclusions.

None of the three of the reports we reviewed included documentation of audit risk assessments: (MERO-IQO-09-02, “Review of Diplomatic Security’s Management of Personal Protective Services in Iraq,” January 9, 2009; MERO-IQO-09-03, “Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq,” April 30, 2009; and MERO-A-09-10, “Performance Audit of Embassy Baghdad’s Transition Planning for a Reduced United States Military Presence in Iraq,” August 19, 2009). Moreover, in one of the reports the internal control evaluation procedures were incomplete and had not been initiated until after fieldwork was complete (MERO-IQO-09-02, “Review of Diplomatic Security’s Management of Personal Protective Services in Iraq,” January 9, 2009).

MERO officials stated that these deficiencies occurred because MERO did not have an audit manual until April 2009 and, therefore, did not consistently include documentation of planning elements in their work papers. As a result of these deficiencies, we do not have reasonable assurance to conclude that audits performed by MERO during the period covered by our review complied with GAGAS for audit planning.

Recommendation 3: We recommend that the State Deputy Inspector General ensure that MERO and other audit staff receive training on the importance of performing and documenting adequate audit planning in accordance with GAGAS.

View of State OIG Official: Concur. In September 2009, at MERO’s first annual conference, MERO introduced a design matrix as a required planning tool for all assignments. In March and June 2010, senior Government Accountability Office (GAO) staff provided additional training to all MERO staff on using the design matrix for planning. Staff members received further training on the design matrix at MERO’s second annual conference in September 2010.

NASA OIG Comments: We consider State OIG’s actions to be responsive to our recommendation.

3. MERO Did Not Have Adequate Control of Audit Work Papers – MERO was initially unable to locate the work papers for one audit we requested to review (MERO-I-09-09, “Review of the Roles, Staffing, and Effectiveness of Regional Embassy Offices in Iraq,” August 25, 2009). GAGAS requires audit organizations to establish and comply with policies and procedures for the safe custody and retention of audit documentation. However, when we requested the work papers for this audit, MERO could not locate them. Accordingly, we selected another audit report for review. The MERO AIG informed us 2 months after our request that the missing work papers had been located on the MERO Baghdad server. Although we are aware that MERO auditors faced extreme war time conditions and were required to use State Department servers containing strict security access controls, upon returning to a stable working environment the auditors were required to properly document and file work papers to ensure that the information is safeguarded and readily accessible when needed.

Recommendation 4: The State Deputy Inspector General should ensure that MERO audit staff has a reliable system in place for safeguarding work papers to ensure that audit reports are properly supported with documented and readily retrievable evidence.

View of State OIG Official: Concur. Since MERO's inception in January 2008, MERO's single greatest logistical challenge has been the lack of a reliable information management system that can be used by evaluation teams in Washington (DC), Amman, Baghdad, Cairo, and Kabul to store, access, and share work papers. However, MERO has taken and is taking actions to correct this deficiency. Specifically, in September 2009, MERO hired a contractor to develop a web-based application that would allow MERO to (1) securely share electronic documents and data among its five offices in real time; (2) improve project management capabilities, including development of automated work papers; (3) enhance project supervision; and (4) centralize document and data storage and retrieval. The system is scheduled to be implemented beginning in October 2010—first at MERO headquarters in Washington, DC, and Rosslyn, VA, and then at the four regional offices.

NASA OIG Comments: We consider State OIG's actions to be responsive to our recommendation.

Deficiencies Noted in State OIG's Compliance with Its System of Quality Control

Statements of Independence Were Not Consistently Signed as Required by the State OIG Office of Audits' Audit Manual – We found 14 instances in four of seven projects we examined (MERO-A-09-10, "Performance Audit of Embassy Baghdad's Transition Planning for a Reduced United States Military Presence in Iraq," August 19, 2009; MERO-IQO-09-03, "Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq," April 30, 2009; MERO-IQO-09-02, "Review of Diplomatic Security's Management of Personal Protective Services in Iraq," January 9, 2009; and AUD-FM-09-07, "Audit of Undelivered Orders," February 27, 2009) where statements of independence were not signed as required. GAGAS requires that audit organizations maintain documentation of the steps taken to identify potential personal independence impairments. The State OIG Office of Audits' audit manual states that each staff member assigned to or working on an audit project must document his or her freedom both in fact and appearance from personal impairments to independence by documenting a completed Personal Impairment Statement in the assignment audit file. We determined that the State OIG – both MERO and the Office of Audits – did not consistently follow this requirement. Without documented statements of independence, State OIG lacks documented assurance that auditors are free of impairment.

Recommendation 5: We recommend that the State Deputy Inspector General ensure that Audit employees document independence statements for each audit assignment.

View of State OIG Official: Concur. The external peer review noted that the review team had found 14 instances in four of seven projects examined where statements of independence were not signed as required. MERO agrees that required statements were not obtained in 13 instances. However, MERO has developed a Project Documentation Set, which includes requirements and guidance for the completion of independence statements by staff. MERO staff received training on the Project Documentation Set at MERO's second annual conference in September 2010.

In the remaining instance cited regarding unsigned statements of independence by AUD (Office of Audits), it should be noted that AUD requested, through several e-mails, that the then-Deputy Assistant Inspector General for Audits sign the statement of independence. However, the individual declined to sign the statement. The peer review team had been given copies of these e-mails, and the report should reflect the audit team's efforts to have the independence statement signed.

NASA OIG Comments: While we reviewed the e-mails requesting the then-Deputy Assistant Inspector General for Audits to sign a statement of independence, the end result is that the statement was never signed and, as such, we identified the missing statement of independence as an exception and included it in the overall deficiency. However, with that clarification, we consider State OIG's actions to be responsive to our recommendation.

Deficiencies Noted in State OIG's System of Quality Control

1. Continuing Professional Education (CPE) Monitoring System Lacks the Ability to Track Government CPEs – We found that State OIG's system for monitoring training CPE credits does not distinguish between government and non-government CPEs. GAGAS requires that each auditor performing GAGAS work must complete 80 CPEs every 2 years and that at least 24 hours of these CPEs must directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. However, the database used by the State OIG to track CPEs did not indicate whether CPEs were government or non-government. As a result, we could not determine whether audit staff met the 24-hour government CPE standard for the period covered by our review.

Recommendation 6: We recommend that the State Inspector General revise its CPE tracking system so that it can distinguish between government and non-government CPEs.

Views of State OIG Officials: Concur. AUD acknowledges that for the period reviewed by the peer review team, the database did not distinguish between government and nongovernment hours of continuing professional education (CPE). However, for the subsequent period (calendar years 2009 and 2010), AUD did maintain a separate spreadsheet to track the total number of government and non-government hours of CPEs completed by the staff. Staff received notices throughout the period informing them of their progress in meeting the requirements. This process is still in effect today.

In July 2010, OIG's technical support staff modified the training database so that the database would distinguish between government and non-government hours of CPEs. In addition, several database reports were revised to allow extraction of this information (1) by individual or AUD as a whole and (2) for a specified period or a complete historical listing. Evidence of this modification to the database was provided in July 2010.

NASA OIG Comments: We consider State OIG's actions to be responsive to our recommendation.

Failure to Implement Recommendations from Last External Peer Review – We found that the State OIG did not fully implement the recommendation from its most recent external peer

review conducted by the Department of Veterans Affairs (VA) OIG in May 2007. The recommendation was that State's Quality Assurance Team increase the number of quality control reviews it performs. Specifically, the VA OIG recommended that the State Assistant Inspector General of Audits "ensure the Policy, Planning, and Quality Assurance Division performs semiannual quality assurance reviews of at least one GAGAS audit from each [Office of Audits] division." Because State OIG has two Office of Audits divisions (Audit Teams and Financial Statement Audits) as well as MERO, implementation of the recommendation would result in six quality assurance reviews per year. However, only two quality assurance reviews were performed in fiscal year (FY) 2009 and both were for reports issued in the March 31, 2009, semiannual reporting period. On March 9, 2010, State OIG completed a third quality assurance review on report (MERO-IQO-09-02). However, this report was also from the March 31, 2009, reporting period. Accordingly, no quality assurance reviews were performed for any report issued between April 1 and September 30, 2009.

Failing to perform quality assurance reviews on an adequate number of audit projects may adversely impact State OIG's assurance that GAGAS requirements have been met as well as preclude an opportunity to correct mistakes and improve the quality of audit products.

In addition, State OIG did not perform corrective actions to address the recommendation from the previous external peer review to "Ensure the OA audit manual includes guidance on Monitoring Contract Independent Public Accountants Nonfinancial Audits and Attestation Engagements." We found that the audit manual still did not include this guidance.

Recommendation 7: We recommend that the State Deputy Inspector General fully implement the recommendation made by the VA OIG in 2007 to perform more quality assurance reviews during the year with the purpose of improving the quality of operations and reports issued by State OIG. In addition, the State OIG should revise the Office of Audits' audit manual to include guidance on monitoring contracted independent public accountant (IPA) firms' nonfinancial audits and attestation engagements.

View of State OIG Official: Concur in principle. AUD agrees that quality assurance reviews should be an important part of ensuring that GAGAS requirements are met, but AUD cannot commit to six quality assurance reviews semiannually. The recommendation made by the Department of Veterans Affairs OIG in its May 2007 review for the Department of State OIG to perform semiannual quality assurance reviews of at least one GAGAS audit from each division is unrealistic. For example, for the semiannual period ended September 30, 2009, AUD issued 10 GAGAS reports. Conducting quality assurance reviews for six of the 10 reports represents 60 percent of the universe, and this would be considered an unrealistic use of AUD resources. In the future, AUD will perform quality assurance reviews based upon the use of a representative sample of GAGAS reports issued. Since August 2010, AUD has initiated two quality assurance reviews, with several more planned. Before this peer review, AUD noted issues related to the adequacy of the oversight of contracted non-financial audits or attest work performed by independent public accounting firms (IPA). In response to these issues, AUD determined that the oversight of IPAs needed to be standardized. In that regard, in February 2010, AUD staff developed a standardized program containing steps for IPA oversight. The program was based upon CIGIE's peer review checklist and section 650 of

the GAO/PCIE (President's Council on Integrity and Efficiency) Financial Audit Manual, "Using the Work of Others." This program was added to AUD's TeamMate library, and in March 2010, AUD used the program to monitor all non-financial statement contracted audit or attest work performed by IPAs. To reinforce the importance of properly overseeing the work of IPAs, the Director of the Financial Management Division, in September 2010, provided training on oversight responsibilities to staff who were or would be overseeing work performed by IPAs.

NASA OIG Comments: We consider State OIG's actions to be responsive to our recommendation.

In addition to reviewing State OIG's system of quality control to ensure adherence with GAGAS, we applied certain limited procedures in accordance with guidance established by CIGIE related to OIG's monitoring of engagements performed by independent public accountants (IPAs) under contract where the IPA served as the principal auditor. During our review of AUD/CG-09-23, "Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by the National Committee on United States-China Relations, Inc.," August 14, 2009, we identified a number of concerns: (1) monitoring efforts were not sufficient to determine whether the IPA contracted to perform the attestation engagement did so according to GAGAS; (2) independence of the contracted IPA was not determined and documented as part of the contracting process; (3) the contracted IPA's system of quality control was not evaluated as part of the contracting process; (4) a copy of the contracted IPA's latest peer review was not obtained and documented as part of the contracting process; and (5) the degree of responsibility that the OIG accepted was not properly documented as part of the OIG monitoring procedures.

While monitoring of engagements performed by IPAs is not an audit and therefore not subject to GAGAS requirements, we conducted these limited procedures to determine whether State OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. Our objective was not to express an audit opinion and accordingly, we do not express such an opinion. We raise the concerns outlined above for State OIG's consideration.



Paul K. Martin
Inspector General

Enclosures

SCOPE AND METHODOLOGY

We tested compliance with the State OIG’s system of quality control to the extent we considered appropriate. These tests included a review of 7 of 26 audit and attestation GAGAS reports issued during the period October 1, 2008, through September 30, 2009, and the April 2009 and October 2009 semiannual reporting periods.

We reviewed State OIG’s monitoring of one engagement performed by an IPA where the IPA served as the principal auditor during the period October 1, 2008, through September 30, 2009. Also, we reviewed two audits performed by the State OIG personnel in the domestic Office of Audits and three from the MERO Division. The CIGIE Guide requires that we also review the most recently completed financial statement audit, which was performed by an IPA firm. Therefore, we reviewed the OIG monitoring procedures for the FY 2008 financial statement audit, which was completed during FY 2009. This resulted in a total of seven selected engagements selected for review. In addition, we reviewed the two internal quality control reviews performed by State OIG during FY 2009.

State OIG Offices Visited

We performed on-site reviews and assessed the State OIG audits completed at the following location:

Rosslyn Metro Center
 Office of Audits, Room 720
 1700 North Moore Street
 Arlington, Virginia 22209

State OIG Reports Reviewed		
Report Number	Date	Title
Attestation Audit		
AUD/CG-09-23	8/14/2009	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by the National Committee on United State-China Relations, Inc.
Performance Audits		
AUD-FM-09-07	2/27/2009	Audit of Undelivered Orders
MERO-IQO-09-02	1/9/2009	Review of Diplomatic Security's Management of Personal Protective Services in Iraq
AUD/SI-09-15	7/8/2009	Audit of Accountability, Inventory Controls, and Encryption of Laptop Computers at Selected Department of State Bureaus in the Washington, DC, Metropolitan Area
MERO-A-09-10	8/19/2009	Performance Audit of Embassy Baghdad's Transition Planning for a Reduced United States Military Presence in Iraq
MERO-IQO-09-03	4/30/2009	Performance Audit of the Triple Canopy Contract for Personal Protective Services in Iraq

State OIG Reports Reviewed (continues)		
Report Number	Date	Title
Financial Statement Audit		
AUD/FM-09-02A	12/12/2008	Independent Auditor's Report on the Department of State's 2008 and 2007 Financial Statements
Internal Quality Assurance Audits		
QCR AUD/CG-09-06	6/24/2009	Independent Accountants' Report on Application of Agreed-Upon Procedures on the Indirect Cost Rates Proposed by the American Council of Learned Societies
QCR AUD/FM-09-02A	6/4/2009	Independent Auditor's Report on the Department of State's 2008 and 2007 Financial Statements

STATE INSPECTOR GENERAL COMMENTS



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

OCT -8 2010

The Honorable Paul K. Martin
Inspector General
National Aeronautics and Space Administration
300 E Street, S.W., Code W, Room 8V39
Washington, DC 20546

Dear Mr. Martin:

Thank you for the opportunity to comment on the draft report of the National Aeronautics and Space Administration, Office of Inspector General, on the external peer review it conducted of the Department of State and Broadcasting Board of Governors, Office of Inspector General (OIG), Office of Audits (AUD) and Middle East Regional Office (MERO). The report expresses the opinion that the system of quality control for OIG's audit organization was suitably designed but that it was not consistently followed by MERO.

We acknowledge that MERO, for the period reviewed, did not consistently follow the OIG's audit organization system of quality control. However, it is important to put these deficiencies into proper perspective. In January 2008, the prior Department of State Inspector General created MERO in response to a congressional requirement for the Department OIG to quickly put "boots on the ground" to provide oversight of Department programs in an area spanning 30 countries from Northern Africa to the traditional Middle East and South/Central Asia. In addition, the MERO staff was directed to issue reports within 6 months after the initiation of projects in order to provide timely feedback to all stakeholders, including Congress. As a result, MERO had been in existence only for a year and 9 months when this peer review was initiated last year.

Although your report acknowledges that MERO auditors faced extreme wartime conditions, it does not credit the office with the tremendous tasks and obstacles they faced in hiring and training staff, seeking logistical support to accommodate staff operating in contingency environments, and creating policies and procedures that were flexible enough to adapt to unforeseen circumstances. Furthermore, it is important to note that the Department has acknowledged the value of MERO's reports and has implemented numerous MERO recommendations that have strengthened Department programs.

On October 29, 2009, AUD issued a draft quality control review of the MERO report *Review of Diplomatic Security's Management of Personal Protective Services in Iraq* (MERO-IQO-09-02, January 2009), which was issued in final form on March 8, 2010. At the time the draft was issued, it became apparent that deficiencies existed in MERO's system of quality control. Your

STATE INSPECTOR GENERAL COMMENTS

peer review reinforced the findings of the AUD quality control review. As a result, in the summer of 2010, I directed AUD to perform all generally accepted government auditing standards (GAGAS) audits in the Middle East and that MERO perform evaluations in the Middle East that comply with the quality standards for inspections and evaluations issued in January 2005 by the Council of Inspectors General on Integrity and Efficiency (CIGIE). In addition, I recently directed that MERO merge with AUD effective October 1, 2011, to ensure that only one OIG office will issue GAGAS audits and that all OIG audits will follow one system of quality control. The Assistant Inspector General for MERO and the Assistant Inspector General for AUD are currently drafting a transition plan for that merger.

In general, I concur with the report's recommendations; however, my responses to the individual recommendations are as follows:

OIG Response to Recommendation 1: Concur. At the time the reviewed audits were in process, MERO was still hiring and training staff, opening offices, and developing its internal control policies and procedures. MERO acknowledges that, because of these circumstances and congressional and Department mandates to quickly provide audit coverage, its work papers were technically incomplete. We note that the Department concurred with the three reports' 10 recommendations and has completed implementation of nine. Since the reports have been completed and the recommendations have been implemented, it would not be a good use of our limited resources to examine all the reports and assess whether the findings, conclusions, and recommendations are adequately documented and supported in accordance with GAGAS. In lieu of doing an assessment, OIG will convert all eight GAGAS reports to assessment reports and will notify all recipients.

OIG Response to Recommendation 2: Concur. The recent hiring of MERO's GS-15 office directors in Washington (DC), Baghdad, Cairo, Kabul, and Islamabad will significantly facilitate the teaching, coaching, and mentoring of MERO's newly hired staff and ensure supervisory review and sign off of work papers. The development and adoption of MERO's Project Documentation Set provides guidance on the process and required documentation for all MERO evaluations to meet compliance with the quality standards.

OIG Response to Recommendation 3: Concur. In September 2009, at MERO's first annual conference, MERO introduced a design matrix as a required planning tool for all assignments. In March and June 2010, senior Government Accountability Office (GAO) staff provided additional training to all MERO staff on using the design matrix for planning. Staff members received further training on the design matrix at MERO's second annual conference in September 2010.

OIG Response to Recommendation 4: Concur. Since MERO's inception in January 2008, MERO's single greatest logistical challenge has been the lack of a reliable information management system that can be used by evaluation teams in Washington (DC), Amman, Baghdad, Cairo, and Kabul to store, access, and share work papers. However, MERO has taken and is taking actions to correct this deficiency. Specifically, in September 2009, MERO hired a contractor to develop a web-based application that would allow MERO to (1) securely share electronic documents and data among its five offices in real time; (2) improve project management capabilities, including development of automated work papers; (3) enhance project

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supervision; and (4) centralize document and data storage and retrieval. The system is scheduled to be implemented beginning in October 2010—first at MERO headquarters in Washington, DC, and Rosslyn, VA, and then at the four regional offices.

OIG Response to Recommendation 5: Concur. The external peer review noted that the review team had found 14 instances in four of seven projects examined where statements of independence were not signed as required. MERO agrees that required statements were not obtained in 13 instances. However, MERO has developed a Project Documentation Set, which includes requirements and guidance for the completion of independence statements by staff. MERO staff received training on the Project Documentation Set at MERO's second annual conference in September 2010.

In the remaining instance cited regarding unsigned statements of independence by AUD, it should be noted that AUD requested, through several e-mails, that the then-Deputy Assistant Inspector General for Audits sign the statement of independence. However, the individual declined to sign the statement. The peer review team had been given copies of these e-mails, and the report should reflect the audit team's efforts to have the independence statement signed.

OIG Response to Recommendation 6: Concur. AUD acknowledges that for the period reviewed by the peer review team, the database did not distinguish between government and non-government hours of continuing professional education (CPE). However, for the subsequent period (calendar years 2009 and 2010), AUD did maintain a separate spreadsheet to track the total number of government and non-government hours of CPEs completed by the staff. Staff received notices throughout the period informing them of their progress in meeting the requirements. This process is still in effect today.

In July 2010, OIG's technical support staff modified the training database so that the database would distinguish between government and non-government hours of CPEs. In addition, several database reports were revised to allow extraction of this information (1) by individual or AUD as a whole and (2) for a specified period or a complete historical listing. Evidence of this modification to the database was provided in July 2010.

OIG Response to Recommendation 7: Concur in principle. AUD agrees that quality assurance reviews should be an important part of ensuring that GAGAS requirements are met, but AUD cannot commit to six quality assurance reviews semiannually. The recommendation made by the Department of Veterans Affairs OIG in its May 2007 review for the Department of State OIG to perform semiannual quality assurance reviews of at least one GAGAS audit from each division is unrealistic. For example, for the semiannual period ended September 30, 2009, AUD issued 10 GAGAS reports. Conducting quality assurance reviews for six of the 10 reports represents 60 percent of the universe, and this would be considered an unrealistic use of AUD resources. In the future, AUD will perform quality assurance reviews based upon the use of a representative sample of GAGAS reports issued. Since August 2010, AUD has initiated two quality assurance reviews, with several more planned.

Before this peer review, AUD noted issues related to the adequacy of the oversight of contracted non-financial audits or attest work performed by independent public accounting firms (IPA). In

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response to these issues, AUD determined that the oversight of IPAs needed to be standardized. In that regard, in February 2010, AUD staff developed a standardized program containing steps for IPA oversight. The program was based upon CIGIE's peer review checklist and section 650 of the GAO/PCIE (President's Council on Integrity and Efficiency) Financial Audit Manual, "Using the Work of Others." This program was added to AUD's TeamMate library, and in March 2010, AUD used the program to monitor all non-financial statement contracted audit or attest work performed by IPAs. To reinforce the importance of properly overseeing the work of IPAs, the Director of the Financial Management Division, in September 2010, provided training on oversight responsibilities to staff who were or would be overseeing work performed by IPAs.

Please express my appreciation to your staff for their time, dedication, and professionalism. Your recommendations will serve to strengthen AUD's and MERO's existing systems of quality control. Should you have any questions, please call me at (202) 663-0361 or have your staff call Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372.

Sincerely,



Harold W. Geisel
Deputy Inspector General