



POLICIES AND
PROCEDURES
HANDBOOK

The 2014 update of the Audit Policies and Procedures Handbook
Supersedes the 2010 Office of Audit Policies and Procedures Handbook.

The 2014 updates should be used by Office of Audit personnel and personnel of
firms under contract when conducting performance and financial audits,
or attestation engagements.

Forward and Background

The chapters herein prescribe the OIG policies and procedures applicable to OIG audits.

The material is designed to provide a comprehensive and ready reference to OIG policies and procedures and for use by OIG and/or contractor staff in carrying out their responsibilities and tasks.

These policies and procedures will be revised as Appalachian Regional Commission conditions change or as new developments in Government and the profession dictate. These policies and procedures incorporate many of the key and successful elements of practices inherent at previously established Office of Inspector General.

The audit policies and procedures provide detailed guidance and explanations to policies and procedures. The detail noted presumes a staff level that can fully implement the various steps noted. However, on a practical basis they very small OIG staff requires a balanced approach with respect to full implementation of some of the ideal actions and processes noted. In this regard the two person audit staff (IG and AIGA) emphasizes grant reviews in accordance with the primary mission of a grant making agency and inspections and evaluations of agency operations. The current OIG relies on the combined 70 years of staff OIG audit experience, including contract oversight to address primary program oversight in a cost effective and practical manner.

The handbook highlights the responsibilities of the IG and AIG and Auditor terminology includes actions by these officials.

We consider Government Auditing Standards (Yellow Book) to be the authoritative document on audit standards and quality control and OIG Policies and Procedures as supplemental information.

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CHAPTER 1

INTRODUCTION TO THE ARC - OIG AUDIT POLICIES AND PROCEDURES HANDBOOK

1.0 PURPOSE

This chapter provides an introduction to the OIG authority, organizational structure, and types of projects. In addition, this chapter explains the content, organization, and updating process of the Policies and Procedures Handbook (ARC Handbook).

1.1 GOVERNING CRITERIA

The Inspector General (IG) Act of 1978, as amended, 5 United States Code (U.S.C.)

1.2 BACKGROUND

Section 8 of the IG Act provides for the statutory establishment of ARC OIG, Office of Inspector General (OIG). The IG Act authorizes the appointment of an Assistant Inspector General for Audit (AIGA), who has responsibility for assisting the Inspector General in carrying out the following statutory missions:

- Conducting and supervising independent and objective audits of agency programs and operations. This includes the authority to determine which audits to perform and to access all information necessary to complete the audits.
- Promoting economy, effectiveness, and efficiency within the Agency.
- Reviewing and making recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keeping the agency head and Congress fully and currently informed of problems in agency programs and operations.

ARC - OIG consists of an IG, AIGA and a Confidential Assistant.

1.4 TYPES OF AUDITS

Audits are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). They are defined by their objectives and are classified as performance audits, financial audits, or attestation engagements.

Performance audits are independent assessments of the performance and management of a program against objective criteria. Performance audits provide recommendations to improve program operations and to facilitate decision making by parties responsible for overseeing or initiating corrective actions and for improving public accountability. Performance audits may include objectives related to: assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and providing prospective analyses, guidance, or summary information.

Auditors¹ should refer to Chapters 4-6 and 10-11 of the Handbook when conducting performance audits.

Financial audits are primarily conducted to determine if financial statements are presented fairly in all material respects and are in conformance with generally accepted accounting principles. The primary objectives of financial audits are to determine and report whether:

- Financial statements fairly present the financial position, results of operations, and cash flows of an audited entity in accordance with applicable auditing and accounting standards.
- The entity's internal controls provide reasonable assurance of the reliability of the financial statements, accountability over assets, and safeguarding of assets.
- The entity has complied with laws and regulations for transactions and events that may have a material effect on the financial statements.

¹ The term "auditor" throughout this Handbook includes individuals performing work under GAGAS and, therefore, individuals with titles such as program analyst, evaluator, or similar titles. Other terms such as staff and employees are used which includes individuals performing work under GAGAS and those required to meet CPE requirements.

Other objectives of financial audits may include: providing special reports for specified elements, accounts, or items of financial statements; and reviewing interim financial information.

Auditors should refer to Chapters 4-7, and 10-11 of the Handbook when conducting financial audits.

Attestation engagements concern examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or nonfinancial subjects.

Auditors should refer to Chapters 4-6 and 8 of the Handbook when conducting attestation engagements.

1.5 DELIVERABLE-BASED AUDIT PROCESS

Audit uses a deliverable-based audit process for progressing through each phase of an audit, as each deliverable builds on the previous deliverable. These deliverables are:

AUDIT PHASE	CHAPTER	DELIVERABLE
Planning	4	1. Research Document 2. Planning Document 3. TeamMate Procedure Steps
Field Work	5	4. Statements of Facts 5. Message Conference
Reporting	6	6. Report Synopsis 7. Discussion Draft Report 8. Draft Report 9. Final Report

1.6 OTHER TYPES OF OA PROJECTS

Nonaudit Services — ARC OIG staff may provide professional services other than audits and attestation engagements, which are referred to as nonaudit services or consulting services. Nonaudit services differ from performance and financial audits and attestation engagements as auditors may perform tasks requested by management that directly support an entity's operations and may provide information on data to the requesting party without providing verification analysis or evaluation of the information or data.

Nonaudit services are not covered by GAGAS. Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. Auditors should refer to Chapter 9 of the Handbook when responding to a request for nonaudit services.

1.7 HANDBOOK STRUCTURE AND CONTENT

The Handbook is divided into 17 chapters. Chapters 1-3 provide an overview of policies and procedures, a description of OIG's workplan development, and guidance on complaint acceptance.

Chapters 4-8 cover the audit process, including audit planning, field work, and reporting for performance audits, financial audits, and attestation engagements.

Chapters 9-17 expand on policies and procedures for crucial functions previously introduced, such as staff independence, statistical sampling, computer processed data, and professional development, and contain other requirements such as the use of contractors, quality control, nonaudit services, and audit resolution and follow up.

1.8 HANDBOOK UPDATES

To ensure the Handbook is kept as current and as relevant as possible, the handbook will be revised as necessary.

Suggestions and Revisions — Suggestions for revisions to the Handbook are welcomed and should be brought to the attention of the IG. The IG will review suggested changes and recommend changes to the AIGA. The IG will also monitor the Handbook to ensure it remains up to date in regard to government auditing standards and the policies and procedures.

Approved Changes — The IG has sole authority to approve changes to the Handbook. Changes to the Handbook will be communicated to staff.

1.9 HANDBOOK EFFECTIVE DATE

The 2014 revision of the Audit Policies and Procedures Handbook is effective for audits beginning on or after March 2014 and for financial audits and attestation engagements for periods ending on or after March 2014. Additional information in prior Policies and Procedures Handbooks remains available to the extent applicable. See P&P Issuances dated 1990 and 2010.

CHAPTER 2

ANNUAL WORKPLAN DEVELOPMENT

2.0 PURPOSE

This chapter describes policies and procedures for developing, approving, and disseminating the annual workplan.

2.1 GOVERNING CRITERIA

The Inspector General (IG) Act of 1978, as amended

2.2 BACKGROUND

The objective of the planning process is to plan for the effective deployment of resources to accomplish all required audits, and to select discretionary audits that are relevant, timely, and maximize the impact of limited resources.

The annual workplan is a 12 month plan that coincides with the Federal fiscal year (FY). It is divided into two sections: Mandatory and Discretionary. Mandatory audits are those is required to conduct. Discretionary audits come from selection and prioritization process described in this chapter. Projects in each section are organized by strategic goal and include planned work and ongoing projects. For mandatory audits, project summaries describe the projects and identify the assigned staff. Discretionary project summaries describe the activity and objectives, identify the assigned staff, and indicate whether the project is ongoing or new.

2.3 POLICY

OIG maintains a work planning process designed to achieve optimal utilization of resources to carry out mandatory activities, as well as to conduct and report on audits that support the Commission's mission and goals.

OIG commits resources to audits required by statute or program regulation, then to special requests determined to be of merit, and finally to discretionary audits. OIG receives special requests for audits from Agency officials, the U.S. Congress, complainants, and other external sources. Discretionary audits are identified through the annual planning process. That process is designed to identify and prioritize audits in areas of the highest risk and/or with the highest potential for supporting the Commission's mission and strategic goals.

2.4 RESPONSIBILITIES

OIG develops discretionary audit proposals.

OIG and AIGA develops and supervise the development of audit proposals.

The IG serves as the control point for the development of the annual workplan and ensures the approved annual workplan.

2.5 RISK-BASED AUDIT PLANNING

The development and selection of discretionary audits is driven by the risk-based audit planning process. This is a continuous wide activity. The OIG use multiple opportunities — audit planning, field work, entrance and exit conferences, and related work — to identify, assess, and report the likelihood and impact of risk related to ARC programs and operations, even if they are outside the scope of a specific survey or audit.

2.6 DISCRETIONARY PROJECT DEVELOPMENT

Planning for the next FY audit workplan begins in the second half of the current FY. Resource materials may include a list of priorities, Agency risk assessments, Agency budget highlight summaries, and lists of OIG and GAO ongoing audits and recent audit reports.

2.7 APPROVAL

Throught the year, OIG staff meets as needed to discuss special requests for audits or services from the Commission, Congress, OIG hotline complaints, or other sources; review progress and challenges of current projects; and address resource needs and ongoing projects.

2.8 SPECIAL REQUESTS

OIG receives requests for audits. The IG and AIGA screen all hotline complaints for information on procedures for addressing hotline complaints, see Chapter 3.

2.9 INITIATION AND ACCEPTANCE OF AUDITS

The processes for initiation and acceptance of audit and attestation engagements described in this chapter provide reasonable assurance the OIG will undertake audit and attestation engagements only if it can comply with professional standards and ethical principles and is acting within its legal mandate.

2.10 WORKPLAN DISSEMINATION

The IG transmits the Workplan to the Federal Co Chair and Executive Director

CHAPTER 3

COMPLAINT ACCEPTANCE PROCESS

3.0 PURPOSE

This chapter describes the process for determining whether a complaint is accepted. If accepted, the appropriate chapters of the handbook apply.

3.1 GOVERNING CRITERIA

IG ACT

3.2 POLICY

OIG will review all complaints received. Based on its review, OIG will accept a complaint for action, refer it to the Commission, retain it for future audit planning, or take no action.

When deciding what action OIG will recommend on a complaint, a number of factors are considered. Those factors include, but are not limited to, the following: the availability of OIG resources, other current priorities, and the nature and credibility of the allegations. See paragraph 3.4 for further description of considered factors. When OIG accepts a complaint for action, the IG will plan and initiate an audit to determine if complaint allegation(s) can be substantiated.

3.3 RESPONSIBILITIES

The IG and AIGA processes hotline complaints.

The IG and AIGA assess the level of risk and impact related to the allegation(s) and determine appropriate action.

OIG maintains a database to document receipt of incoming complaints and the status of OIG review and determination.

The IG decides whether to accept a complaint for action.

3.4 ACCEPTANCE ANALYSIS

As part of its review process, OIG analyzes the complaint and any supporting documentation to recommend an action. To support OIG action, the following are preferred:

Initial OIG Analysis — OIG summarizes basic information about the complaint and prepares a complaint synopsis.

The synopsis includes, but is not limited to:

- relevant background on the subject of the complaint and related ARC program, policy, or legislation;
- description of the allegation(s);
- source of the complaint;
- summary of any documentation the complainant provided to support the allegation(s);
- prior OIG or GAO reports related to the subject of the complaint;
- whether the complainant submitted the complaint to another entity; or
- whether a complaint is pending or a review was completed in another forum (e.g., State or ARC agency monitoring).

Consideration Factors — It is OIG policy to consider several factors when deciding whether to select a complaint for action. These factors include, but are not limited to:

Magnitude – The subject of the complaint is consistent with a series of similar complaints and the complainant has exhausted existing procedures to resolve the complaint.

Magnitude – The subject of the complaint is consistent with a series of similar complaints and the complainant has exhausted existing procedures to resolve the complaint.

Severity – The complainant alleges violations that pose an immediate threat to safety or health of workers, participants in ARC-funded programs or services, or ARC employees. The complainant alleges violations related to child labor.

Unresolved Complaint – In cases of serious alleged violations, the complainant states he/she previously reported them to the appropriate ARC office, but the conditions persist.

Jurisdiction – The subject of the complaint is not related to ARC programs, operations, or enforcement responsibilities.

3.5 ACCEPTANCE DETERMINATIONS

OIG may recommend one of the following actions:

Accepted for Action – The IG accepts the complaint.

Not Accepted for Action – The IG makes such a determination.

Other Action – The AIGA recommends IG or Counsel refer the complaint's allegation(s) to ARC, or another OIG. The AIGA may notify Counsel it will incorporate the complaint's allegation(s) into current or future audit work.

3.6 AIGA ACTIONS

After reviewing the complaint and any input from the IG or AIGA drafts a memorandum for the OIG signature to the Counsel to the Inspector General. The memorandum notifies Counsel of the recommended action.

3.7 STATUS REPORTS

OIG maintains a database to document receipt of incoming complaints and the status of OIG review.

CHAPTER 4

AUDIT PLANNING

4.0 PURPOSE

This chapter establishes policies and responsibilities for planning performance audits, financial audits, and attestation engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS). If a requirement does not apply to a specific audit type, it will be noted in the chapter. Additional requirements for financial audits and attestation engagements can be found in chapters 7 and 8, respectively.

Effective planning enhances the likelihood that stated objectives are answered, that the audit is conducted in accordance with standards, and that it is completed within established timelines. It also helps to ensure efficient use of time and resources, and provides clear direction and purpose for preparing a well-supported, well-written audit report.

4.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Independence 3.02–3.30
- Professional Judgment and Competence 3.69–3.81
- Quality Control and Assurance 3.82–3.104
- Standards for Financial Audits, Chapter 4
- Standards for Attestation Engagements, Chapter 5
- Fieldwork Standards for Performance Audits, Chapter 6

4.2 BACKGROUND

GAGAS requires auditors to adequately plan and document the planning of the work necessary to address the audit objectives. Planning is a continuous process throughout the audit, as each deliverable builds on the previous deliverable.

4.3 GENERAL

In conducting audit² planning and design, auditors follow GAGAS by exercising professional judgment in determining the type of assignment to perform, what standards apply, the type and amount of evidence required, and the level of associated risk as a basis for sound management decisions.

² The term audit refers to performance, financial, and attestation engagements.

During this phase, the emphasis should be on developing and/or refining the audit objectives and designing an audit approach that maximizes audit effectiveness and efficiency.

The planning phase generally includes the following: (1) preliminary research; (2) development and refinement of objective, scope, and methodology; and (3) preparation of the audit program. The specific requirements for accomplishing the planning phase are discussed in paragraphs 4.4 – 4.11.

4.4 AUDIT ASSIGNMENT AND INITIATION

All audits will be authorized by the IG. Any audit described in the Workplan is an audit approved by the IG. The IG may also authorize other audits based on hotline complaints, special requests, or in response to emerging issues.

For all approved audits, IG assigns a project number and establishes the project and start date.

4.5 NOTIFICATION AND ENTRANCE CONFERENCE

The purpose of this step is to establish contact with program managers to notify management of the audit and to schedule an entrance conference. IG approves and transmits the audit notification memorandum prior to the start of the audit.

Notification is required for Agency-level or non-Federal entity projects.

Agency-Level Projects – The IG or AIGA prepares a Notification Memo on agency-level projects. The Notification Memo informs the ARC Officials that work is being initiated and requests an entrance conference.

Non-Federal Entity Projects – If the audit includes a non-federal entity, the IG prepares and sends a notification letter to the entity. Copies of the notification are sent to the applicable Agency Audit Liaison, other agency national and/or regional office staff, the state (when the non-Federal entity receives pass-through funds from the state), the State Auditor or equivalent.

Notification to State Auditors — IG prepare and send the notification letter to State Auditors when applicable.

Congressional Notification — Some audits require congressional notification. Generally, these notifications are issued by the Inspector General.

It is often practical and efficient to submit data requests prior to initiating field work. However, staff must exercise caution in providing advance notification of specific sample items and transactions, as doing so may increase the risk of data manipulation or destruction of documents by the auditee.

Entrance Conferences are held with the auditee to discuss the tentative audit objectives, locations to be visited, records and other information needed, time frames, and how the results will be reported. At the entrance conference, OIG staff introduce themselves, identify their respective roles, and make administrative arrangements (hours of work, work space, access to photocopying, etc.).

For consolidated financial statement audits and attestation engagements, or if the audit requires a representation letter, it is a good idea to advise management at the entrance conference that one will be requested. The advance notice emphasizes management's responsibility for providing information, making records available, and disclosing related parties, subsequent events, and other pertinent facts.

For non-Federal entity audits, if representatives of the grantor or contracting agency do not attend the entrance conference, auditors should contact them to discuss the objectives of the audit.

4.6 RESEARCH DOCUMENT (Deliverable 1)

The purpose of research at the start of the audit is to summarize information about the programs and activities to be audited, including known program weaknesses. This portion of the audit is primarily achieved through research conducted from readily available sources. This phase culminates with a Research Document (RD).

Building on information gathered during the research phase of the audit, the auditors will prepare the Planning Document (PD). Refer to the next section, 4.7 - Planning Document, for description of the PD.

If the source of the audit is an approved project proposal, the team should use the proposal as a starting point and incorporate research results to expand and update the proposal's description of the potential problem and its impact on the program to be audited.

The Research Document includes the following:

Background provides basic information on the organization, plan, or function to be audited. Background information should include descriptive information such as organizational alignment, significant dates, budget information, and significant legislation.

The background information is used to establish context for the overall message and to help the users of the report understand the findings and significance of the issues discussed.

Criteria represents the laws, regulations, Office of Management and Budget (OMB) Circulars, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria also describe the required or desired state or expectation of the program or operation.

Project Proposal Validation requires auditors, if the audit was approved and included in the current annual Workplan, to obtain a copy of the audit proposal that led to its inclusion in the workplan. Once a copy is obtained, auditors should determine if the information in the "problem to explore" and "risk assessment" sections of the proposal are still accurate and consider whether changes in external or internal conditions since the proposal was written impact the proposal's description of the problem to explore or the risk assessment. Such changes could include changes in the complexity of operations, legislation, program size, significance, visibility, or sensitivity of the program. Auditors should then analyze and decide how these changes affect the audit's impact and timeliness.

Prior Audit Reports and Ongoing Audits, whether from the OIG or Government Accountability Office (GAO), should be identified if they relate to the proposed audit objectives. Identify ongoing audits and determine if there are current audits that overlap or are related to the audit. Document your results. If

there are current audits that overlap with the proposed audit objectives, advise the Audit Director to decide if the audit should continue.

Known Program Weaknesses should be described as identified in prior OIG and GAO audit reports, ongoing OIG and GAO audit work, and prior or ongoing OIG investigations. Consider the impact of the known program weaknesses on the audit objectives, scope, and methodology. Identify the risk factors related to the known program weaknesses.

4.7 PLANNING DOCUMENT (Deliverable 2)

The Planning Document (PD) incorporates the Research Document. The PD presents a general plan for executing an approved audit. As such, it provides a basis for developing the audit program and all subsequent work on the audit. Through the PD, the auditors inform Headquarters of their audit plan and receive feedback and direction from Headquarters staff.

The PD includes the following tentative decisions regarding:

- Potential audit results
- Audit objectives
- Scope
- Methodology designed to answer audit objectives
- Audit milestones
- Staffing

The PD must establish a logical link between the potential results, the audit objectives, and methodology.

Potential Audit Results summarize the condition and effect the auditors expect to find when they conduct the audit.

Audit Objective(s) state what the audit is to accomplish. Setting clear and specific objectives is the key to conducting high quality and timely audits. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. The objectives are written as positive, unbiased questions to be answered during the audit. For example, "were performance goals achieved?" is preferred over "did the program fail to achieve its performance goals?"

Scope is the boundary of the audit and is directly tied to the audit objectives. The scope identifies the subject matter that the auditors assess and report on, the period of time reviewed, and the locations included.

Methodology presents an overall strategy for meeting the audit objectives. It describes in broad terms the type and extent of data gathering and analytical procedures to be performed, such as sampling, survey questionnaires, record reviews, use of experts or consultants, or coordination with other OIG offices.

Project Document Approval Process - IG approves PD.

4.8 PLANNING CONSIDERATIONS AND RISK

Proper planning helps the auditors to determine an achievable scope and timeline, identify specific objectives, and develop an effective methodology to answer the objectives.

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurances may be improper or incomplete, as a result of several possible factors. Factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, intentional omissions or misleading information due to misrepresentation or fraud could increase audit risk. During the planning phase, as the team plans the audit they should assess and document audit risk and materiality or significance³ within the context of the audit objectives by assessing the following:

Consideration of Internal Control - General — The auditors should obtain and document a sufficient understanding of the auditee's internal controls⁴ related to the audit objectives in order to determine the nature, timing, and extent of tests to be performed. For an internal control that is significant within the context of the audit objectives, auditors should assess whether the internal control has been properly designed and implemented. Auditors should plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls.

Assessments should include a review of management policies, procedures, practices, and other internal controls applicable to the audit objectives. In addition, auditors may obtain an understanding of internal controls through inquiries, observations, inspection of documents and records, review of other auditors' reports, or direct tests. The procedures auditors perform may vary among audits based on the audit objectives and audit risk.

There are a variety of resources for the auditor to use when planning how to obtain, document, and assess the effectiveness of the auditee's internal controls. The OMB Circular A-123, *Management's Responsibility for Internal Control*, as its name implies, provides information on the types of internal controls OMB recommends Federal managers establish in order to improve program effectiveness and operations. In addition, auditors should consider using GAO publications for assessing the internal control structures — *Internal Control Standards in the Federal Government* and *Internal Control Management and Evaluation Tool*. Additionally, when planning the internal control evaluation, the auditors should refer to the internal control guidance contained in *Internal Control—Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

³ Chapter 6, paragraph 6.04 of the December 2011 Government Auditing Standards states, "In the performance audit standards, the term "significant" is comparable to the term "material" as used in the context of financial statement audits."

⁴ Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives.

The audit's internal control assessment should include an evaluation of each of the components discussed in the COSO framework and GAO Internal Control Standards. As per these documents, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

Reliability of Information — When auditors use information gathered by the auditee as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. The auditors may find it necessary to perform testing of management's procedures (manual and/or automated procedures) to obtain assurance or perform direct testing of the information. Regarding manual controls, these would include management controls over data collection and source documents.

Consideration of IT System Controls — Understanding information system controls is important when information systems are used extensively throughout the program under audit, and the fundamental processes related to the audit objectives rely on information systems. Information system controls consist of those internal controls that are dependent on information system processing and include general and application controls. (For additional information on data risk and assessing system controls, refer to Chapter 12, Auditing Computer Processed Data.)

Consideration of Fraud (Legal and Regulatory Requirements, Contract Provisions or Grant Agreements, Potential Fraud or Abuse) — The auditors must determine which laws, regulations, and provisions are significant to the audit objectives, and assess the risk that fraud, violations of legal and regulatory requirements or contract provisions, and abuse could occur. Based on the results of this assessment, the auditors should design specific audit steps to provide reasonable assurance of detecting significant risks or instances of fraud, violations, or abuse.

Regarding brainstorming sessions, *Statement on Audit Standards (SAS) 99* requires a (brainstorming) discussion among auditors to identify the risks of material misstatements due to fraud in financial statement audits. It is OA's policy that team brainstorming discussions will also be held for all performance audits and attestation engagements. Such sessions should involve the team's posing questions and developing hypothetical answers about how fraud might occur at the auditee, and designing tests to detect such occurrences. The brainstorming session will be documented as part of the fraud risk step.

Obtain information from team members about their experiences with the auditee, about methods the entity might use to perpetrate and conceal fraud, and about procedures the team might perform to detect any resulting fraud or material misstatement due to fraud.

Follow up on Prior Audit and Investigative Results — Auditors should plan to follow up on prior significant findings and recommendations relating to the audit objectives to determine whether the audited entity has taken appropriate corrective action to address findings and recommendations. If the auditee has not taken appropriate action, the auditors should design audit steps to follow up on the prior finding. Previous OIG and GAO reports can be identified on the OIG and GAO Internet sites.

Initial Risk Assessment — Based on the procedures performed, conclude and document the level of risk identified as high, medium or low.

4.9 IDENTIFY SOURCES OF EVIDENCE AND THE AMOUNT AND TYPE OF EVIDENCE REQUIRED

The auditors should identify possible sources of information and data that could be used as audit evidence. Auditors should also determine the amount and type of evidence needed to obtain sufficient and appropriate evidence to address the audit objectives and adequately plan audit work.

4.10 USING THE WORK OF OTHERS

If the auditors intend to rely on the work of others, they should perform procedures that provide a sufficient basis for that reliance. Procedures that auditors may perform in making this determination include reviewing the other auditors' report, audit plan, or audit documentation⁵, and/or performing tests of the other auditors' work. That is, the auditors will obtain evidence concerning the other auditors' qualifications and independence through prior experience, inquiry, and/or review of the other auditors' external quality control review report. However, audit work that did not comply with GAGAS cannot be relied on as standard work. Similar considerations should be made when using the work of specialists.

Sometimes an audit will require the work of specialists. If the auditors use the work of a specialist, they must obtain an understanding of the specialist's qualifications related to the audit objective and independence.

4.11 STAFF QUALIFICATIONS AND INDEPENDENCE

The IG and AIGA should assign sufficient staff and specialists with adequate collective professional competence to perform the audit. In addition, auditors participating on audit assignments must be independent. This includes those who review the work or the report, and all others within the audit organization who can directly influence the outcome of the audit.

For guidance on Independence, see Chapter 10, Independence and Ethical Principles.

4.12 ESTABLISH OBJECTIVES, SCOPE, AND METHODOLOGY

Based on the initial risk assessment and other audit work performed, the auditors will establish the objectives, scope, and methodology. Additional audit work, such as interviews, "walkthroughs," or reviews of files may be needed to refine the objectives, scope, and methodology. Most importantly, the auditors are to use knowledge gained to design tests appropriate to the level of risk assigned by the auditors.

The established objectives, scope, and methodology, and any subsequent changes need approval/concurrence from the IG/AIGA.

4.13 TEAMMATE PROCEDURE STEPS (Not currently used)

4.14 COMMUNICATE OBJECTIVES

IG or AIGA will communicate the established objectives with the auditee. This will be performed in writing for the IG's signature. Auditors should determine whether a meeting with the auditee is necessary to explain the audit objectives.

4.15 TERMINATION OF AUDIT

At any time during the design or testing/verification phases, the IG can recommend to terminate the audit by submitting a memo justifying the termination to the AIGA for approval.

⁵ Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and the conclusions the auditor reached. In this Handbook, audit documentation is also referred to as workpapers.

If the IG approves an audit termination, determining how and when to communicate the reason for terminating the audit to the auditee will depend on the facts and circumstances, and is a matter of professional judgment. The IG may prepare a memo or letter to notify the agency or non-Federal entity the audit is being terminated. Such notification is signed by the IG for agency-level audits and by the IG for non-Federal entity audits or State Auditors.

If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to date and why the audit was terminated.

If an audit initiated by a complaint is terminated, the IG prepares a memorandum to the Counsel to the IG.

CHAPTER 5

FIELD WORK

5.0 PURPOSE

This chapter sets forth policies and procedures for conducting field work for performance audits, financial audits, and attestation engagements. If a requirement does not apply to a specific audit type, it will be noted in the chapter. Additional requirements for financial audits and attestation engagements can be found in chapters 7 and 8, respectively. Specifically, this chapter addresses requirements, which relate to maintaining professional judgment, obtaining sufficient and appropriate evidence, developing elements of a finding, preparing and safeguarding audit documentation, and supervising the auditors.

5.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, July 2007

- Professional Judgment 3.60–3.68
- Standards for Financial Audits, Chapter 4
- Standards for Attestation Engagements, Chapter 6
- Evidence 6.56–6.72
- Supervision 6.53–6.55
- Audit Findings 6.73–6.77
- Audit Documentation 6.79–6.85

5.2 PROFESSIONAL JUDGMENT

Auditors must use professional judgment when conducting all phases of an audit. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. The use of professional judgment dictates that auditors will follow audit standards and maintain their independence throughout the audit, conduct their work with integrity, and use a system of quality control to ensure the accuracy of the work. Professional judgment should be used to reduce audit risk, to identify significant problems with an audit approach, and to identify audit staff competent to perform the work.

5.3 SUFFICIENT AND APPROPRIATE EVIDENCE

Types of Evidence — GAGAS requires that auditors obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions. GAGAS identifies three types of evidence:

Physical – Auditors obtain physical evidence when they directly inspect or observe people, property, events, or processes. Such evidence may be documented in the workpapers using memorandums, photographs, drawings, charts, maps, or physical samples.

Documentary – Auditors obtain documentary evidence by reviewing already existing information such as contracts, letters, accounting records, database extracts, electronically stored information (including email), purchase orders, invoices, personnel files, claims folders, management information on performance, etc.

Testimonial – Auditors obtain testimonial evidence through inquiries, interviews, questionnaires, or surveys. Testimonial evidence may be documented in the workpapers using memorandums, letters, electronic mail messages, or reports of contact or interviews. For audits of a sensitive nature or where potential fraud has been identified, the auditors should consider obtaining testimonial evidence under oath. The IG should discuss this option with the Counsel to the OIG.

Types of Audit Tests to Gather Evidence — Auditors frequently use analytical processes, such as computations, comparisons, separation of information into components, and rational arguments to evaluate the evidence gathered and to determine whether it is sufficient and appropriate. Analytical evidence may be documented using narratives, spreadsheets, tables, graphs, databases, or charts.

Tests of Evidence — Auditors must obtain sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions. The auditors should consider audit risk in determining the quantity and quality of the evidence needed to satisfy the audit objectives, findings, and conclusions. The greater the risk, the greater the quantity and quality of evidence required. The auditors should consider evidence of different types or sources when attempting to verify information important to the audit, especially when the evidence is inconsistent. When evidence significant to the audit objectives is inconsistent, in dispute, or only partially available, the auditors should explain how they formulated their conclusions.

Sufficient evidence – The measure of the **quantity** of evidence used for addressing the audit objectives and supporting findings and conclusions. When appropriate, statistical methods will be used to establish sufficiency.

Appropriate evidence – The measure of the **quality** of evidence that encompasses the relevance, validity, and reliability of evidence.

Scope limitation – When obstacles prevent the auditors from obtaining sufficient and appropriate evidence, they should document the departure from GAGAS requirements and the impact on the audit and the auditor's conclusion.

Management Representation Letters — Although not required for performance audits, performance auditors may determine that a representation letter would be appropriate. AICPA auditing standard, AU 333, Management Representations, governs financial statement audits and attestation engagements and may be adapted for the purpose of obtaining management representations for performance audits.

Management representation letters are designed to confirm both oral and written representations by management regarding assertions made concerning policies, recordkeeping, reporting, and other significant matters. Management representation letters are used to ensure there are no misunderstandings by management with respect to its responsibilities for the statements and information provided to OIG personnel.

While representation letters are usually obtained at the end of field work, it may be desirable to obtain written representations at the beginning or at critical junctures of the field work. For example, if there are questions about the completeness of information that is the basis for subsequent tests and procedures, we may want to request management's representation before we rely on this information.

Management Failure to Provide Representations — If management does not provide the requested representations, or if the letter is modified so that significant representations are not made, the AIGA, in consultation with the IG, determines if the lack of representation is a scope limitation and, if so, modifies the report accordingly. Also, in light of management's failure to provide its written representation, the AIGA must reconsider the reliability of statements and information provided during field work.

Statements of Facts (SOF) — SOFs are used to inform the auditee of conditions found. They are tailored to the audit assignment and should

confirm criteria and identify exceptions found during field work. They assure that data are complete and correct for summary and analysis.

SOFs should be issued to the highest-level official at each field work location after the work is completed at that location and preferably before leaving the location. The official is expected to either confirm the accuracy of the data presented or to provide comments and support where the auditee disputes the facts presented.

By issuing periodic SOFs, the auditors obtain early auditee concurrence on the facts as they are developed, avoid reaching conclusions on misinformation, and avoid overwhelming the auditee with information to be fact-checked at the end of field work.

If the auditee disagrees with the conditions identified, the auditors need to analyze and conclude on the auditee response. The auditor should also make appropriate changes to the workpapers.

5.4 OVERALL ASSESSMENT OF EVIDENCE

Auditors should determine the overall sufficiency and appropriateness of evidence within the context of the audit objectives. Auditors should perform an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.

The auditors will document the overall assessment in a workpaper whose purpose is to determine the overall sufficiency and appropriateness of audit evidence to ensure that audit risk was reduced to an acceptable level to support the findings and conclusions. Once the auditors have analyzed evidence obtained to satisfy the audit objectives, findings, and conclusions, the auditors will summarize their results. In the summary, the auditors will explain how critical interviews were corroborated and describe the results of analysis of the evidence. As part of the overall assessment of evidence, auditors should:

Reassess the audit period and timeliness of data to make sure everything is still relevant — Review audit documentation and evidence received, including but not limited to: Statement of Facts, consultation with legal services, and discussions with AIGA and IG.

Determine if the risk assessment is still valid — A review of the risk assessment in relationship to the audit objective(s) should be considered. If additional procedures have been added to the audit program; consideration should be given to determine if the original risk assessment requires adjustment.

Review adjustments made to the audit — The audit procedures steps is a work in progress and may require adjustments depending on variables that arise during fieldwork. The changes to the audit may require adjustments to the audit program that can permeate throughout the entire audit process. As such, the auditor should determine how these adjustments impact the sufficiency of evidence.

Review results: were objectives answered and findings fully developed — Review supporting evidence to ensure evidence obtained fully supports the objectives. Supporting documentation should not contain any extraneous information that does not support the audit report. Applicable workpapers generally reference the scope of work done. Workpapers walk the reader through the audit work done enabling a complete understanding from the beginning of the audit through the report process, enabling the reader to come to the same conclusion as the auditor.

Determine if evidence is sufficient to answer the audit objectives — Information collected during fieldwork stage in the form of testimonial, evidentiary, documentary and physical answer questions pertaining to the audit objective(s). Auditors are responsible for the collection of this evidence and summarizing it in the workpapers. Sufficiency of evidence is determined by the reasonableness of the overall documentation in satisfaction of the audit's objective(s).

Determine if evidence is sufficient to support the findings — Auditors summarize the results of work and determine if the evidence collected is reasonable to establish if overall findings are supported by the evidence accumulated.

The summary workpapers described in Section 5.6 of this Chapter will form the basis for the overall assessment of evidence.

5.5 DEVELOPING ELEMENTS OF A FINDING AND RECOMMENDATIONS

Elements of a Finding — A well-developed finding typically contains four attributes – criteria, condition, cause, and effect. As the auditors perform detailed audit work and collect evidence, they determine which of the four attributes the evidence supports. Each attribute is described in detail below.

Criteria – The “what should be.” Criteria are the standards, measures, expectations of what should exist, best practices, and benchmarks against which performance is compared or evaluated.

Condition – The “what is.” The condition is information on a situation that exists. Typically a condition is a problem or an opportunity for improvement. The condition is a statement of fact and describes what the audit found. The condition will clearly explain the nature, extent, and frequency of the deficiencies or errors.

Non-Monetary Recommendation: A recommendation that has no monetary effect but recommends actions to change policies, procedures, and/or practices. This type of recommendation improves compliance with legal requirements, or improves the efficiency and effectiveness of systems, programs, and operations, or improves internal controls.

Recommendations: As the auditors are developing findings, they should also begin considering what recommendations they will make to address the identified problems. A recommendation is the action needed to correct or eliminate recurrence of the cause. A recommendation should address the underlying or root cause and be specific. A recommendation is:

- constructive and encourages improvements;
- in most cases, recommended corrective action can be completed within 1 year;
- directed at resolving the root causes of identified problems; • action oriented, specific;
- addressed to one individual who will have full accountability to implement the recommendation; and
- feasible and cost-effective.

Recommendations should also be made based on the monetary effect of findings as previously discussed. These types of recommendations can be monetary or non-monetary. When recommending funds put to better use, auditors may use statistical projections. Questioned costs are based on what is observed, therefore, auditors will not use projected questioned costs in recommendations.

5.6 AUDIT DOCUMENTATION

Workpaper Requirements — Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Workpapers should be sufficiently detailed to enable an experienced auditor, having no previous connection to the audit, to understand the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained, its source and the conclusions reached. Workpapers should be relevant, accurate, clear, concise, and grammatically correct. Supplementary oral explanations should not be needed. Workpapers should not contain any extraneous information that does not support the audit report.

Workpaper Preparation — The auditor prepares all workpapers in on audits and attestation engagements.

A useful element of condition is the extent it varies from the criteria (for example, was performance 5% or 50% short of the expectation?).

Cause – The “why.” The cause is the reason for the problem, or the reason for the difference between the expected and actual conditions. Knowing why or how a condition occurred, or identification of the root cause, is essential to developing meaningful recommendations. Each condition may have more than one cause that involves policies, procedures, and practices established by management.

Effect – The “so what.” The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect identifies the outcomes or consequences of the condition. After identifying the difference between “what should be” (criteria) and “what is” (condition), the auditors need to determine the impact of this difference on the program, activity, or function being audited. Auditors should develop the effect to the point that it convinces a reader that the reported cause warrants timely corrective action. The effect can be monetary or non-monetary. To the extent possible, monetary effects should be quantified.

OIG uses three types of monetary effects:

- Questioned Costs – Unsupported
- Questioned Costs – Other
- Funds Put to Better Use

The first three types are defined as follows and are governed by Section 5.f of the Inspector General Act:

Questioned Cost – Unsupported: A finding that, at the time of the audit, such cost is not supported by adequate documentation.

Questioned Cost – Other: An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Funds Put To Better Use: These are amounts that could be used more efficiently if the auditee implements reported recommendations. This type of benefit focuses on savings of Federal funds.

Exception – In the event the evidence is voluminous or a workpaper should be prepared explaining the description and location of the evidence. The evidence should be maintained in electronic form (or hard copy if not available in electronic form) outside and such work must be protected and secured at all times.

Required Workpaper Elements — Audit documentation generally addresses the following elements:

- Purpose of the work performed.
- Source(s) of the data or information including the name, title, and contact information of the individual providing the information as well as the source(s) of the data (i.e., identify the computer system, database, or web site). When using a web page as evidence, the auditor should record the web address and date the web page was accessed. Auditors should include an image of the web page for audit documentation.
- Scope of the work performed, including time periods reviewed, descriptions of records or transactions examined, and possible data limitations.
- Methodology of the work performed.
- Results of the work performed. Should be developed to address each step in the methodology.
- Conclusions should directly relate to the purpose of the work performed. In other words, the conclusion should address/answer your purpose.

Summary Workpapers — Auditors should prepare summary workpapers for each objective. Summaries consolidate the results of various audit steps relating to a particular objective or topic. Summaries should answer the objective and, if applicable, support the development of audit findings. These summary workpapers can be used to document the overall sufficiency of evidence.

Findings Summary — For each finding, the auditors should prepare a summary workpaper. The summary will address each element of the finding and clearly define the deficiencies surrounding facts, causes, effects, and recommendations.

Indexing and Referencing Workpapers — Workpapers are not complete until they are properly indexed and referenced. Indexing and referencing demonstrate the sufficiency of our work and facilitate supervisory and quality control reviews,

and report preparation. Indexes are created automatically in TeamMate when the audit folders are created and when workpapers are added. Referencing is the process of annotating (linking) the report, summaries, or other documentation to identify specific sources and details used as support. Auditors must reference workpapers by linking to supporting documents as appropriate to allow an experienced auditor with no previous connection to the audit to ascertain from the workpapers the evidence that supports the auditors' judgments and conclusions.

At a minimum, in general, auditors reference summary workpapers to supporting or detailed workpapers and detailed workpapers to source documents. AIGA ensures workpapers prepared by the auditors have been properly referenced prior to submission for IG review.

Exclude Extraneous Information – Audit documentation that does not support the audit report is unnecessary and should not be maintained. This may include but is not limited to:

- Unnecessary criteria
- Revisions of discussion draft, draft, and final reports
- Extra copies or versions of criteria and documentation
- Evidence gathered but not used to support the audit objectives
- Audit documentation that is not relevant

In addition, electronic office and user files on ARC systems, laptops, portable media and any manual records must be searched and unnecessary audit documentation deleted or discarded within 60 days of report issuance.

5.7 SAFEGUARDING AND RETENTION OF AUDIT DOCUMENTATION

Workpaper Safeguards — Auditors need to safeguard any data that has been entrusted to our care for evaluation or audit purposes. Auditors should use only government furnished equipment. Sensitive information, and information included in a Privacy Act system of records is not made available to the public. The most common types of such information include name, address, photograph, identifying number(s), education, home telephone number, criminal history, employment information, employment/testing performance information, marital status, familiar information, organizational affiliation, financial transactions, medical history, and confidential business information. The auditor safeguards electronic audit documentation and other audit documentation at all times to prevent improper disclosure or premature release of audit findings and other privileged, confidential, or sensitive information obtained during the audit.

Proper Disclosure or Release — The OIG-approved electronic workpaper system and external audit documentation are official documents and are the

property of the U.S. Government and the Office of Inspector General and will not be removed or released without specific supervisory approval, or destroyed without an approved record retention schedule. Only the Inspector General or AIGA can authorize the release of audit documentation to outside parties. Staff should contact the OIG Counsel for assistance in making release determinations concerning documentation of audit findings and other privileged, confidential, or sensitive information obtained during the audit.

Encryption — Sensitive and Privacy Act information is considered to be "for official use only" and must be protected accordingly. Because of the importance and sensitivity of personally identifiable information (PII) and the inherently mobile nature of auditors, all audit documentation on laptop computers or any other form of portable media must be encrypted with OIG-approved encryption software.

Limited Access — Audit documentation that requires limited access, even to other OIG staff, shall be specifically controlled. Examples include audits involving privacy act information and audits of information technology security. Such audits will be limited to only those persons who have a specific need for access.

Collecting Sensitive and Privacy Act Information — When the audit objectives call for the collection of personal information, it must be handled as sensitive and/or confidential. The most common types of Privacy Act information include name, address, photograph, identifying number(s), education, home telephone number, criminal history, organizational affiliation, financial transactions, and medical history.

In case OIG contractors obtain and maintain sensitive or Privacy Act information, the responsible OIG staff ensure the contractor's compliance with these requirements.

Written Notice To Solicit Sensitive Information — When requesting personal information about individuals from any source, staff must be able to demonstrate that the specific information requested is necessary to carry out our responsibilities under the Inspector General Act. OIG staff requesting such personal information must also have a specific "need to know" related to the audit objectives and must ask only for necessary data.

Staff must provide written notice (or oral notice during a telephone interview) when they solicit personal information, including social security numbers, directly from an individual. No notice is required when an agency requests personal information about an individual from someone other than that individual, or from an entity or organization.

The following is an acceptable notice to be given to individuals in conjunction with a personal interview, or as part of the standard introduction of a telephone interview:

As authorized by the Inspector General Act, the ARC Office of Inspector General is conducting an audit of the Program. We would like to ask you about your participation in this Program. We may use your comments to recommend changes to the Program. The Privacy Act requires that we inform you that providing any personal information is voluntary. We also need to inform you that your answers will be documented and subject to limited disclosure for official purposes only.

Procedures that include interviewing individuals suspected of illegal activities or whose eligibility for program services might be affected by their answers require staff to use different warning notices. Staff are required to contact the Office of Legal Services for assistance in developing these notices.

Audit Finalization — Use guidance contained in the Statement on Auditing Standards (SAS) 103, Audit Documentation. SAS 103 specifically prohibits auditors from deleting or discarding existing audit documentation after the 60-day period, and requires appropriate documentation of any subsequent additions.

Retention of Audit Documentation — OIG-approved electronic audit documentation and hard copy working papers are retained for three years after the end of the fiscal year in which all audit recommendations are closed. Working papers may be destroyed after that time.

5.8 CONSULTATION WITH OIG Counsel

ARC Counsel should be consulted whenever there are questions about compliance with statutory and regulatory provisions, including but not limited to the Paperwork Reduction Act, Computer Matching Act, and Privacy Act; OA access to records; criteria used by auditors, or; other specific matters requiring or benefiting from legal review or advice. Counsel may also be consulted to obtain legal reviews related to OIG projects, reports, and operations. The following guidelines apply:

Substantive Legal Issues — OIG staff should consult with counsel when substantive legal issues arise regarding the use and interpretation of judicial or administrative opinions, agency legal opinions, statutes, regulations, criteria, and related legal materials. While staff may discuss audit issues and other non-controversial matters with attorneys representing audited parties or Commission programs, staff should not engage in interpretive legal discussions with attorneys and should refer these matters to OIG Counsel.

Access to ARC Records — The Inspector General Act require ARC agencies to provide the OIG with access to needed records, reports, and other information. ARC employees are required to cooperate fully with

Office of General representatives, and contractors acting on their behalf, during the course of audit activities. Such cooperation includes: (1) being available for interviews and oral explanations; (2) furnishing information, data, reports, documents, or other materials which are relevant to the audit; (3) rendering assistance as requested by the OIG in analyzing and interpreting the information, data, reports, documents, or other materials provided; and (4) arranging adequate space and facilities for OIG auditors when onsite audit work is being performed. Initial requests for information may be informal.

If cooperation is not provided, the IG provides the agency with a written request detailing what information and/or cooperation is needed and indicating a reasonable time period for the information and/or cooperation to be provided. If the agency continues to not provide requested information and/or cooperation, the IG will consult with IG Counsel about appropriate action.

Access to non-ARC Records — Staff should consult with the IG, and Counsel regarding issues related to access to non-ARC records, including records from other federal agencies, state and local agencies, and private individuals or entities, during the course of an audit or attestation engagement. These issues include, but are not limited to:

Negotiating or otherwise discussing, with an auditee or other non – ARC entity or individual, their counsel, or their agent, any special considerations or conditions associated with OIG's access to records, OIG's use and disclosure of such records, pledges of confidentiality, or the conditions under which the OIG maintains records obtained during an audit;

- Entering into any written agreements regarding access to records;
- Complying with any Federal or state statutes or regulations which may impact a particular request for access to records;
- Coordinating access in instances where there is a concurrent or otherwise ongoing criminal investigation; or
- Determining the need for an OIG administrative subpoena, drafting an appropriate subpoena, following OIG procedures for the service and return of a subpoena and, if needed, enforcing a subpoena.

Disclosure of Information — OIG staff should consult with the IG Counsel before disclosing information obtained through official business to any outside parties, including Congress, ARC, other governmental agencies, the media, and the public. .

5.9 COMMUNICATION WITH AUDITEE

Communicating frequently promotes efficiency and effectiveness during the planning, fieldwork, and reporting phases. Key phases requiring effective communication include but are not limited to:

- Engagement
- Statement of Facts
- Request for information
- Discussion Draft
- Draft Report
- Final report
- Representation letter

Protocols — IG and AIGA are the responsible parties for contact with agency heads.

5.10 COMMUNICATION WITH HEADQUARTERS - OPEN

5.11 SUPERVISION AND REVIEW

Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable standards, while staying informed about significant problems encountered and reviewing the work performed. The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the complexity and significance of the work and the experience of the staff. The AIGA is responsible for directing the efforts of the auditors to ensure that the audit objectives are accomplished. .

The IG or AIGA supervises work to ensure that evidence, conclusions, and findings are adequately documented and the audit plan is completed. The following will provide evidence of the supervisory review:

The AIGA supervises work to ensure that evidence, conclusions, and findings are adequately documented and the audit plan is completed. The following will provide evidence of the supervisory review:

- Audit Deliverables: research document, approved planning document, audit plan
- Status reports
- Coaching notes
- Supervisor's sign off of workpapers
- TeamMate's workpaper history file

- Team meetings
- Report Routing, Control, and Issuance Checklist

For work performed under contract with an IPA, see Chapter 13, Use of Contractors.

Workpaper Reviews — The IG or AIGA will conduct timely, periodic reviews of workpapers to ensure that the project is progressing satisfactorily and the workpapers adequately support the findings, judgments, conclusions, and recommendations.

Supervisory reviews ensure the auditors:

- prepared workpapers in accordance with GAGAS and OIG policy;
- addressed project objectives;
- obtained sufficient and appropriate evidence;
- supported conclusions and judgments in the workpapers; and
- referenced all workpapers appropriately and accurately.

All workpapers supporting the report findings and recommendations need to be signed off before the report is issued.

Workpaper Sign-off — AIGA must sign off on all summary workpapers for each objective and all finding summaries⁶. The audit cannot be finalized until all programs, summaries, procedure steps, attached workpapers, and exceptions are signed-off, and all coaching notes are closed.

CHAPTER 6

AUDIT REPORTING

6.0 PURPOSE

This chapter establishes policies and responsibilities for reporting audit results, findings, conclusions, and recommendations to auditees in accordance with Generally Accepted Government Auditing Standards (GAGAS). This chapter applies to performance audits, financial audits, and attestation engagements. If a requirement does not apply to a specific audit type, it will be noted in the chapter. Additional requirements for financial audits and attestation engagements can be found in chapters 4 and 6, respectively.

6.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Standards for Financial Audits, 4.17-4.45
- Standards for Attestation Engagements 5.18–5.44
- Reporting Standards for Performance Audits, Chapter 7

6.2 POLICY

The OIG will communicate the results of each completed audit in a draft report issued to the agency audited. After incorporating the agency's response to the draft report, a final report will be issued. The final report should contain (1) the objective(s), scope and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement of compliance with GAGAS; (4) a summary of the views' of responsible officials and a complete copy of the agency's response to the draft report; and (5) if applicable, the nature of any confidential or sensitive information omitted.

If an audit is terminated before it is completed and an audit report is not issued, auditors will consult with the IG to decide whether and how to communicate the reason for terminating the audit to auditee officials.

Auditors will communicate audit results to auditees through written closeout memorandums, alert memorandums, discussion drafts, drafts, final reports, special reports, and exit conferences.

OIG prepares and issues audit reports in accordance with applicable standards to the appropriate agency head for every completed audit. When the agency head is the subject of an allegation addressed in the report, or when the report's recommendations require corrective action at the

Agency Head level, the report is issued to the Agency Head. Reports affecting more than one Agency can be jointly addressed and issued to all impacted Agencies.

The reporting process differs depending on whether the audit relates to: (a) a program, operation, or function carried out directly by ARC personnel (hereafter referred to as agency audits); or (b) a grantee, subgrantee, contractor, or subcontractor (hereafter referred to as non-Federal entity audits).

Discussion draft and draft reports of agency audits are issued for comment to agency heads, as well as other key ARC executives who would be knowledgeable about the matters reported on or who would be responsible for addressing issues raised in the report. The discussion draft is an opportunity to meet with the agency to discuss audit results, findings, and recommendations, and to obtain informal comments. Draft reports are provided to obtain written comments.

Discussion draft and draft reports of ARC non-Federal entity audits are issued for comment to the non-Federal entity. Additionally, when non-Federal entity reports recommend ARC officials take action, discussion drafts and drafts are provided to a agency head for informal comment (discussion draft) and formal written comment (draft).

6.3 REPORT FORMAT- To Be Identified

6.4 AUDIT CLOSEOUT MEMORANDUM

The IG determines, based on professional judgment, that an audit should be terminated. Determining how and when to communicate the reason for terminating the audit to the agency or non-Federal entity will depend on the facts and circumstances. In most cases, the IG will prepare a memorandum or letter to notify the agency or non-Federal entity the audit is being terminated.

Terminated Prior to Completing the Design Phase — For audits terminated during the design phase, the closeout memorandum or letter states the audit objectives and the reason for terminating the audit. The memorandum or letter states that the termination does not preclude the OIG from conducting an audit of the area at a later date.

Terminated During Field work — For audits terminated after the design phase and during field work, the closeout memorandum or letter states the audit objectives, scope, and methodology. The memorandum or letter states why the audit was terminated and discloses issues the auditors identified, if any, but that were not significant enough to warrant further work.

6.5 ADDRESSING THE REPORT

Reports will be addressed to the agency official with the authority to provide an official agency response and implement corrective actions in response to the audit.

6.6 REPORT ELEMENTS

Audit reports will contain the following elements, as required by GAGAS: (1) objectives, scope, and methodology of the audit; (2) background; (3) criteria; (4) scope of work on internal controls and deficiencies in internal controls, as applicable; (5) instances of fraud, as applicable; (6) audit results, including findings, conclusions, and recommendations, as appropriate; (7) statement about the auditors compliance with GAGAS; (8) summary of the views of responsible officials; and (9) if applicable, the nature of any confidential or sensitive information omitted.

Objectives, Scope, and Methodology — Auditors should include in the report a description of the audit objectives, scope, and methodology used for achieving the audit objectives. This information is needed by report users to understand the purpose of the audit, the nature and extent of the audit work performed, to provide perspective as to what is reported, and to understand any significant limitations in audit objectives, scope, or methodology. Scope and methodology are presented separately.

Audit Objectives should be communicated in a clear, specific, and neutral manner to explain why the assignment was undertaken and what the report is to accomplish. The report presents the results for all audit objectives, including those that do not result in findings and recommendations. When audit objectives are limited but broader objectives could be inferred by users, the report should state that certain issues were outside the scope of the audit in order to avoid potential misunderstanding.

Scope is the depth and coverage of work undertaken to accomplish the audit objectives. The scope section should state that the audit was performed in accordance with GAGAS, and identify the specific set of standards (financial, attestation, or performance) under which the audit was made.

The scope section should identify the organizations and geographic locations visited, the period covered, the kinds and sources of evidence obtained, and any significant limitations or uncertainties with the evidence. As applicable, the scope section should explain the relationship between the audit universe and what was sampled.

If the audit did not follow GAGAS, the report should disclose any applicable standards that were not followed, and how not following such standards affected the results of the work. The scope should report significant constraints on the audit approach as a result of scope impairments and data limitations and access. For example, limitations on the reliability of computer-processed data should be disclosed. (If such data are critical to the audit objectives, the auditor should refrain from drawing unwarranted conclusions or making recommendations based on data that are not determined to be reliable.)

Methodology is the approach used and activities undertaken to answer the audit objectives. To maintain a clear distinction between scope and methodology, a separate section is presented to describe the audit methodology. This section should address the evidence gathering, data reliability, and analytical and comparative techniques used, and if sampling was employed, the sampling design and whether the results can be projected to the universe.

Background — Information is used to establish context for the overall message and to help the users of the report understand the findings and significance of the issues discussed.

Criteria — Laws, regulations, contracts, grant agreements, standards, measures, or benchmarks that are significant to the audit objectives used to support findings and conclusions.

Internal Controls — Auditors should report on internal controls as follows:

Financial Audits and Attestation Engagements – Auditors should report, as applicable to the objectives, and based upon the work performed, significant deficiencies in internal control, identifying those considered material weaknesses.

Performance Audits – Auditors should include in the audit report: (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the objectives. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may communicate those deficiencies in a separate management letter to officials of the audited entity and refer to that letter in the audit report. However, if the deficiencies are clearly inconsequential considering both qualitative and quantitative factors, auditors should use professional judgment in determining whether or how to communicate such deficiencies to officials of the audited entity. Auditors should include in their audit documentation evidence of all communications about internal control deficiencies found during the audit.

Fraud and Non-compliance — GAGAS requires all instances of the following to be reported as a finding: (1) fraud, (2) non-compliance with provisions of laws, regulations, contracts, and grant agreements, or (3) abuse that has either occurred or is likely to have occurred, which is significant within the context of the objectives of the audit.

Audit Results — The audit results should answer the question posed by the objective. A result describes the condition found and affirms whether the auditee is meeting applicable criteria. Audit results should, to the extent possible, include the elements of criteria, condition, cause, and effect to assist the auditee and oversight officials in understanding the need for corrective action. While the elements of a finding depend on the audit objective, all four elements should normally be addressed in reports.

Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the finding.

Conclusions are more compelling when they clearly lead to the auditors' recommendations and convince the user of the report that the action is needed.

Recommendations — Care must be taken to ensure recommendations are practical, cost-effective, and verifiable. Recommendations should be:

- developed to assure their feasibility;
- designed to address or mitigate the cause of the conditions noted
- in most cases, possible to implement within 1 year;
- detailed so the auditee has an adequate basis for agreement, disagreement, or presentation of alternative approaches, and will be able to demonstrate that final action has been completed; and
- directed at the appropriate action officials.

Reporting Views of Responsible Officials — Auditors will include the views of responsible officials (agency comments). Including these views results in a more balanced report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they may have proposed.

Auditors should also include in the report an evaluation of the comments, as appropriate.

GAGAS Statement — For performance audits, when auditors comply with all applicable GAGAS requirements, they should include the following language, which represents an unmodified GAGAS statement, in the introduction to the audit report and in the scope section:

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report that indicates which standards were not followed or language that the auditor did not follow GAGAS.

Reporting Confidential or Sensitive Information — If certain 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, as well as the reason(s) or other circumstances that make the omission necessary.

6.7 ALERT MEMORANDUM

During the audit, if the auditors identify a serious or urgent issue, either within or outside the scope of the audit, they should not wait until the end of the audit to report the issue when there is a strong likelihood that waiting until the audit report's issuance would result in the loss of an opportunity to prevent or curtail significant harm or resource loss. Instead, IG should prepare an alert memorandum to notify agency officials or the audited entity of the issue. Because the alert memorandum presents facts found before an audit is completed or facts found outside the scope of an ongoing audit, it does not state that it is based on an audit performed in compliance with GAGAS.

An alert memorandum generally focuses on only one or two issues. The memorandum should include sufficient information to add perspective and demonstrate the seriousness of the issue; however, the memorandum does not have to contain all the elements of a report or finding. For example, the auditor may not know the cause, especially the root cause, of the condition or its full effect. An alert memorandum should include one or more recommendations.

Alert memorandums are stand-alone documents issued in final without including auditee comments. Depending on the significance of the reported conditions, it may be appropriate to provide officials with an advanced copy prior to its official release. Action officials are allowed 5-10 workdays to respond to the alert memorandum. The alert memorandum and subsequent response are both posted to the OIG public website.

6.8 MANAGEMENT LETTERS & COMMUNICATION OF OTHER MATTERS

Management letters may be issued in conjunction with any audit report to communicate internal control weaknesses, immaterial violations of grant or contract provisions, or other matters that do not rise to the level of significant deficiencies, but that nonetheless warrant management attention and corrective action. The underlying financial, attestation, or performance audit report refers to the management letter, which should be read in conjunction with the audit report. Management letters are in the form of memoranda from the AIGA to the agency head to which the underlying report was directed including management letters stemming from audits of non-Federal entities.

When based on professional judgment, the AIGA determines that matters that come to the auditors' attention are clearly inconsequential, the AIGA determines whether and how to communicate them to appropriate officials. For example, the auditors can discuss such issues at the exit

conference. The audit workpapers should contain evidence of such communications.

6.9 REPORT REFERENCING

Referencing the report is an essential step in assuring overall audit report quality. Each line, section, and paragraph in the report, including OIG conclusions and management comments, must be referenced to supporting workpapers. All final reports must be referenced before release. Depending on circumstances, the AIGA or may require referencing and an QCR or Independent Reference Review (IRR) of discussion draft or draft reports, in which case only changes in the final report will be referenced as follows:

- To the extent practical, reports should be referenced to summary workpapers. The summary workpapers must be referenced to the corroborating supporting details.
- All figures, amounts, dates, and titles appearing in the report must be supported by information in the workpapers. A referencer should not have to perform computations to determine how a reported figure was determined.
- When the AIGA or require referencing of a discussion draft or draft report and there are no significant changes between the discussion draft, draft, and final reports, the auditors may reference the final report to the referenced discussion draft or draft report. If the final report changed significantly from the discussion draft or draft report, then the changes in the final report must be referenced.

6.10 REPORT SYNOPSIS

Based on discussion and conclusions regarding the audit findings and proposed report message, the auditors prepare a report synopsis. The synopsis summarizes the audit results, findings, background, audit objectives, scope, and recommendations. .

Routing and Approval — The routing and approval of the report synopsis and subsequent reports (discussion draft, draft, and final) is through the AIGA and IG.

6.11 COORDINATION WITH COUNSEL

The release of any report (discussion draft, draft, or final) containing data that may affect ongoing investigations must be coordinated with IG Counsel documented in the workpapers.

6.12 NOTIFICATION OF FINDINGS AND RECOMMENDATIONS

During the course of audits that are large, complex, and involve many parties and agencies, auditors may consider communicating findings and recommendations to the auditee in advance of the discussion draft report.

6.13 DISCUSSION DRAFT (DD) REPORT & EXIT

The reporting process differs depending on whether the audit relates to: (a) a program, operation, or function carried out directly by ARC personnel; or (b) a grantee, subgrantee, contractor, or subcontractor (non-Federal entity).

Discussion draft of agency audits are issued for comment to agency heads, as well as other key ARC executives who would be knowledgeable about the matters reported on or who would be responsible for addressing issues raised in the report. The discussion draft is an opportunity to meet with the agency to discuss audit results, findings, and recommendations, and to obtain informal comments.

Discussion draft reports of ARC non-Federal entity audits are issued for comment to the non-Federal entity. Additionally, when non-Federal entity reports recommend ARC officials take action, discussion drafts are provided to a ARC Assistant Secretary or agency head for informal comment.

Discussion Drafts — The auditors prepare a DD report, which requires AIGA approval, to advise ARC and non-Federal entity operating-level program officials of the audit results and findings. The DD is an opportunity for the auditor to obtain auditee's input and views on the report before it is issued for formal comment. Accordingly, the AIGA should provide the DD to the auditee in advance of the exit conference to facilitate a discussion of the report's:

- Accuracy
- Balance
- Completeness
- Tone
- Feasibility of recommendations
- Corrective actions planned or under way

The DD represents work-in-progress. Therefore, each page should include a "DISCUSSION DRAFT" header. The cover of the report should include the disclosure statement below:

This Discussion Draft has been prepared for/by the ARC, Office of Inspector General, as a basis for discussion of preliminary findings and recommendations with agency management. It is subject to revision before it is formally issued as a draft audit report. This document is provided to officials solely for review and comment on the subjects reported. Recipients of this document are not authorized to distribute or release this information except for official review and comment.

Note: The IG will only sign acceptance of the final report (see paragraph 3.15, Final Reports).

Discussion Draft Transmittal – Once the AIGA approves the discussion draft for release, the Audit Director transmits the DD electronically or hand delivers it to the ARC officials. If electronically delivered, the transmission should be in a PDF file format to avoid the auditee’s ability to view comments and changes made to the report prior to the AIGA approval. For a non-Federal entity audit, the contractor or grantee audit liaisons should receive a copy of the DD. The transmittal letter requests the liaison to: (1) disseminate it to appropriate “need to know” officials for review, and (2) schedule an exit conference, generally within 2 weeks.

Non-Federal Entities – When an audit report of a non-Federal entity recommends ARC officials take action to improve a ARC process or procedure that applies to the non-Federal entity, ARC management, not the auditee’s management, is responsible for corrective action. For example, OIG may recommend that a ARC Agency Head improve monitoring for a non-Federal entity. When a discussion draft includes such a recommendation, the Audit Director’s transmission to the ARC agency liaison will request informal agency comments and an exit conference. Conversely, recommendations to ARC management, for which the auditee is not responsible for correcting, are not included in the discussion draft provided to the non-Federal entity. Note; in such cases, the auditors may have to conduct two exit conferences – one with the non-Federal entity officials and one with ARC officials.

Exit Conference — Once the IG has approved the DD report, the IG contacts the appropriate ARC officials and the non-Federal entity’s liaison to schedule an exit conference, generally within 2 weeks of the DD issuance. The objectives of the exit conference are to:

- describe results, findings, conclusions, and recommendations;
 - obtain the auditee’s comments, including agreement or disagreement with results;
 - attempt to address auditees’ concerns and resolve any differences; and
- explain the draft and final report clearance process.

6.14 DRAFT REPORTS

Draft reports are provided to obtain written comments. Draft reports of agency audits are issued for formal written comment to agency heads, as well as other key ARC executives who would be knowledgeable about the matters reported on or who would be responsible for addressing issues raised in the report. Draft reports of ARC non-Federal entity audits are issued for formal written comment to the non-Federal entity. Additionally, when non-Federal entity reports recommend ARC officials take action, draft reports are provided to a ARC Assistant Secretary or agency head for formal written comment.

Following the exit conference, the auditors consider the agency's and/or non-federal entity's comments and make any changes deemed necessary or appropriate to the DD to prepare the draft report.

The AIGA transmits the draft electronically or hand delivers it to the ARC agency audit liaison. If electronically delivered, the transmission should be in a PDF file format to avoid the auditee's ability to view comments and changes made to the report prior to the AIGA approval. If a non-Federal entity audit, the contractor or grantee audit liaisons should receive copies.

Like Discussion Drafts, Draft reports represent work-in-progress. Therefore, each page should contain a "DRAFT" header, and the cover of the Draft Report should include the following disclosure statement:

This is a draft report prepared for/by ARC, Office of Inspector General, and is subject to revision before it is released in its final form. This draft is provided to officials solely for review and comment on the subjects reported. Recipients of this draft are not authorized to

distribute or release this information except for official review and comment.

Note: The IG or AIGA will only sign acceptance of the final report (see paragraph 6.15, Final Reports).

Draft Report Transmittal Memorandum — For all reports, the IG prepares the draft report transmittal memorandum addressed to the agency head. For reports to non-Federal entities, the IGr drafts and issues the transmittal memorandum to the non-Federal entity's action-level official.

The transmittal requests that the agency (and the non-Federal entity official, if applicable) provide a written response addressing the draft report's results and recommendations by a specified date, usually within 2 weeks. Decisions on auditee requests for deadline extensions will be made by the IG or AIGA.

When a draft report recommends ARC officials take action to improve a ARC process or procedure that applies to non-Federal entities similar to the auditee, the auditors also prepare a transmittal memorandum for the AIGA's signature. The transmittal memorandum, which is addressed to the appropriate agency head, requests agency management to provide written comments addressing those recommendations addressed specifically to the agency. Conversely, recommendations to ARC management, for which the auditee is not responsible for correcting, are not included in the draft report provided to the non-Federal entity.

6.15 FINAL REPORTS

After receiving the auditee's comments to the draft report, the auditors prepare the final report. The auditee's comments are summarized in *The Briefly...* and appropriate sections of the report, and they are included in their entirety as an Appendix to the report.

The report is modified as necessary in view of the agency's comments on the draft report. In addition, for agency reports, the auditors consider whether any corrective action plan included in the agency's response is sufficient to resolve or close the audit recommendations.

Final Report Prepared by an IPA Firm — If an IPA firm under contract to OIG prepared the final report should identify the audit was performed under contract to OIG and is a report of the OIG.

Final Report Transmittal Memorandum — The IG prepares the final report transmittal. For agency-level reports, the transmittal should request that the agency respond to the final report within 60 days. It should also request agency management indicate agreement or disagreement with the audit recommendations and the reasons for any disagreement. In the case of agreement, the agency is requested to propose corrective actions that constitute a reasonable plan for implementing the audit recommendation. The plan must include a time line for accomplishing the proposed corrective actions and designate the individuals responsible.

For non-Federal entity reports, the transmittal should request that the Grant or Contracting Officer issue a Final Determination within 180 days.

Report Dating — For performance audit reports, the report issuance date will be the date the report is signed by the IG.

A financial statement audit opinion and an opinion resulting from an attestation engagement will be dated as of the date the auditor has obtained sufficient, appropriate audit evidence to support the opinion. The opinion date will appear after the IG's signature. The report issuance date will be the date the transmittal memorandum is signed by the IG, and will appear on the report cover.

When an extended time lapse occurs from the end of fieldwork to the issuance of the report, the auditors should make inquiries to the auditee and/or obtain

additional information to determine whether conditions reported remain valid and the report is not misleading. The IG must determine what changes or disclosures to the report are necessary.

Posting of Reports to OIG Internet — Except for restricted distribution reports, the audit reports are posted to the OIG's Internet site within days of release.

6.16 DISTRIBUTION OF REPORTS

The OIG will distribute the final report with a transmittal memorandum signed by the IG to the agency head of the program audited. A copy of the report may also be provided to other program agency officials, as appropriate.

Final reports will also be distributed to Congress members who requested the audit, Congressional oversight committees, OMB, GAO, and other stakeholders, as appropriate.

6.17 RESTRICTED DISTRIBUTION

The IG should consult with the IG Counsel concerning the proper handling of information that may be covered under the Privacy Act, Freedom of Information Act, Trade Secrets Act, or other authorities. Additionally, some reports are restricted due to security considerations.

Absent unusual circumstances, information falling within these categories which is included in reports or other documents is not made available to the public. Where such information is necessary for the agency to respond to the report, it is submitted to those with a "need to know" by separate document.

DD, Draft, and Final reports sometimes contain sensitive or proprietary information that should be protected from improper disclosure. In such cases, the following statement should appear on the report cover:

Notice – This report contains sensitive information and is restricted to official use only. This report is being provided to agency officials solely for their review, comment, and appropriate action. It contains sensitive information, which should only be reviewed by individuals with a legitimate "need to know." Recipients of this report are not authorized to distribute or release it without the express permission of the Office of Inspector General.

OIG maintains all reports designated as restricted distribution in a separate, locked file cabinet.

CHAPTER 7

FINANCIAL AUDIT

7.0 PURPOSE

This section expands on Chapters 1, 2, and 3, and provides special requirements for performing financial audits.

7.1 GOVERNING CRITERIA

American Institute of Certified Public Accountants (AICPA) Standards

Generally Accepted Government Auditing Standards, December 2011

- General Standards, Chapter 3
- Standards for Financial Audits, Chapter 4

Financial Audit Manual (FAM)

Federal Information System Controls Audit Manual (FISCAM)

Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements

7.2 GENERAL

GAGAS for financial audits are based on the standards developed by the AICPA. The AICPA has established professional standards for financial audits that apply to government financial statement issuers performed by IPA's. For financial audits, GAGAS incorporates the AICPA field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. It should be noted that GAGAS describes ethical principles, and establishes independence and other general standards, and additional field work and reporting standards beyond those provided by the AICPA for performing financial audits.

For the annual audit of the ARC financial statements to comply with the Government Management Reform Act of 1994, auditors are required to follow the requirements of the Government Accounting Office/President's Council of Integrity and Efficiency, Financial Audit Manual (FAM) and Federal Information System Controls Audit Manual (FISCAM); and OMB guidance.

7.3 APPLICABILITY OF AICPA STANDARDS

GAGAS incorporates by reference the AICPA Statements on Auditing Standards.

7.4 ADDITIONAL FIELDWORK REQUIREMENTS

GAGAS establishes requirements for performing financial audits in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements, along with the incorporated SASs, when citing GAGAS in their reports.

Auditor Communication – In addition to the AICPA requirements for auditor communication, when performing a GAGAS financial audit, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the audit, and to cognizant legislative committees when auditors perform the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.

Previous Audits and Attestations – When performing a GAGAS audit, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

Fraud, Noncompliance, and Abuse – In addition to the AICPA requirements concerning fraud and noncompliance with provisions of laws and regulations, when performing a GAGAS financial audit, auditors should extend the AICPA requirements pertaining to the auditors' responsibilities for laws and regulations to also apply to consideration of compliance with provisions of contracts or grant agreements.

Developing Elements of a Finding – In a financial audit, findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; fraud; or abuse. As part of a GAGAS audit, when auditors identify findings, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives. The elements include condition, criteria, cause, and effect.

Audit Documentation – In addition to the AICPA requirements for audit documentation, auditors should comply with the following additional requirements when performing a GAGAS financial audit:

- Document supervisory review, before the report release date, of the evidence that supports the findings, conclusions, and recommendations contained in the auditors' report.
- Document any departures from the GAGAS requirements and the impact on the audit and on the auditors' conclusions when the audit is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit.

Auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers. Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform a financial audit in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals, as well as audit documentation.

7.5 ADDITIONAL REPORTING REQUIREMENTS

In addition to the AICPA requirements for reporting, auditors should comply with the following additional requirements when citing GAGAS in their reports:

Compliance with GAGAS – When auditors comply with all applicable GAGAS requirements for financial audits, they should include a statement in the auditors' report that they performed the audit in accordance with GAGAS.

Internal Control and Compliance – When providing an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. Auditors report on internal control and compliance, regardless of whether or not they identify internal control deficiencies or instances of noncompliance.

Auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3)

noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

Auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their report on internal control and compliance the relevant information about:

- fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;
- noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- abuse that is material, either quantitatively or qualitatively.

When presenting findings such as deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should develop the elements of the findings to the extent necessary, including findings related to deficiencies from the previous year that have not been remediated.

Views of Responsible Officials – If the auditors' report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.

Auditors should also include in the report an evaluation of the comments, as appropriate. When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

Confidential and Sensitive Information – 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.

Distribution of Reports – Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution

7.6 ADDITIONAL CONSIDERATIONS

Due to the objectives and public accountability of GAGAS audits, additional considerations for financial audits completed in accordance with GAGAS may apply. These considerations relate to:

Materiality – The AICPA standards require the auditor to apply the concept of materiality appropriately in planning and performing the audit. Additional considerations may apply to GAGAS financial audits of government entities or entities that receive government awards.

Communication of Deficiencies – Early communication to those charged with governance or management may be important because of the relative significance and the urgency for corrective follow-up action. Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance.

7.7 ADDITIONAL REQUIREMENTS FOR ANNUAL COMMISSION FINANCIAL STATEMENT AUDIT

Additional considerations are required to be considered when performing the annual departmental financial statement audit. The considerations relate to:

Applicability of the Financial Audit Manual – The annual Commission financial statement audit should be conducted in accordance with FAM. The FAM presents a methodology to perform financial statement audits of federal entities in accordance with professional standards. The FAM provides a framework for performing financial statement audits of federal entities in accordance with *Government Auditing Standards*.

Applicability of the Federal Information Systems Control Audit Manual – The FISCAM presents a methodology for performing information system control audits of

federal and other governmental entities in accordance with professional standards. The FISCAM is designed to be used primarily on financial and performance audits, which includes the annual departmental financial statement audit, and attestation engagements performed in accordance with GAGAS, as presented in *Government Auditing Standards*.

Applicability of Office of Management and Budget Guidance – Audits of Federal financial statements are conducted according to the requirements in OMB's Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The Bulletin established minimum requirements for audits of Federal financial statements.

CHAPTER 8

ATTESTATION ENGAGEMENTS

8.0 PURPOSE

This section expands on requirements included in Chapters 1, 2, and 3, and provides special requirements for attestation engagements.

8.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Standards for Attestation Engagements, Chapter 5

8.2 GENERAL

GAGAS for attestation engagements are based on standards developed by the AICPA. GAGAS incorporates the AICPA general standards on criteria, and the field work and reporting standards and the related Statements on Standards for Attestation Engagements (SSAE) unless specifically excluded or modified by GAGAS. It should be noted that GAGAS established attestation engagement field work standards in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional standards when citing GAGAS in their attestation engagement reports. The requirements and guidance contained in chapter 1 through 3 also apply to attestation engagements performed in accordance with GAGAS.

An attestation engagement can provide one of three levels of service as defined by the AICPA, namely an examination, a review, or an agreed upon procedures engagement. Auditors should determine which of the three levels of service apply to that engagement and refer to appropriate AICPA standards and GAGAS sections for applicable requirements and considerations.

8.3 BACKGROUND

In an attestation engagement, auditors issue an examination, a review, or an agreed-upon procedures report on a subject matter, or an assertion about a subject matter that is the responsibility of another party. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or conditions, physical characteristics, historical events, analyses, systems and processes, or behaviors. Attestation engagements can cover a broad range of financial or non-financial subjects. Possible subjects of attestation engagements could include reporting on:

- ARC compliance with requirements of specified laws, regulations, rules, contracts, or grants.

- Effectiveness of ARC internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts.
- Final contract cost.
- Specific procedures performed on a subject matter (agreed-upon procedures).
- Specific ARC information or ARC management's assertion on ARC information.

8.4 EXAMINATION ENGAGEMENTS

Additional Field Work Requirements for Examination Engagements

GAGAS establishes field work requirements for performing examination engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements, along with the relevant AICPA standards for examination attestation engagements, when citing GAGAS in their examination reports. The additional field work requirements relate to:

- a. auditor communication;
- b. previous audits and attestation engagements;
- c. fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse;
- d. developing elements of a finding; and
- e. examination engagement documentation.

Auditor Communication – In addition to the AICPA requirements for auditor communication, when performing a GAGAS examination engagement, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the examination engagement, and to cognizant legislative committees when auditors perform the examination engagement pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.

Previous Audits and Attestation Engagements – When performing a GAGAS examination engagement, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter, or an assertion about the subject matter, of the examination engagement. When planning the engagement, auditors should ask audited entity management to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of the examination engagement being

undertaken, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current examination engagement objectives.

Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse – In addition to the AICPA requirements concerning fraud, when performing a GAGAS examination engagement, auditors should design the engagement to detect instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the subject matter or the assertion thereon of the examination engagement. Auditors should assess the risk and possible effects of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the subject matter or an assertion about the subject matter of the examination engagement. When risk factors are identified, auditors should document the risk factors identified, the auditors' response to those risk factors individually or in combination, and the auditors' conclusions.

Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Because the determination of abuse is subjective, auditors are not required to detect abuse in examination engagements. However, as part of a GAGAS examination engagement, if auditors become aware of abuse that could be quantitatively or qualitatively material, auditors should apply procedures specifically directed to ascertain the potential effect on the subject matter, or the assertion thereon, or other data significant to the objective of the examination engagement. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. Laws, regulations, or policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current examination engagement. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the examination engagement or a portion of the

examination engagement to avoid interfering with an ongoing investigation or legal proceeding.

Examination Engagement Documentation – In addition to AICPA requirements for audit documentation, auditors should comply with the following additional requirements when performing a GAGAS examination engagement.

- a. Prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the 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 to be able to perform the examination engagement.
- b. Document supervisory review, before the date of the examination report, of the evidence that supports findings, conclusions, and recommendations contained in the examination report.
- c. Document any departures from the GAGAS requirements and the impact on the engagement and on the auditors' conclusions when the examination engagement is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit

When performing GAGAS examination engagements and subject to applicable laws and regulations, auditors should make appropriate individuals, as well as attest documentation, available upon request and in a timely manner to other auditors or reviewers. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS engagements that provide for full and timely access to appropriate individuals, as well as attest documentation.

Additional GAGAS Reporting Requirements for Examination Engagements

In addition to the AICPA requirements for reporting on examination engagements, auditors should comply with the following additional requirements when citing GAGAS in their examination reports. The additional reporting requirements relate to:

- a. reporting auditors' compliance with GAGAS;
- b. reporting deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse;
- c. reporting views of responsible officials;
- d. reporting confidential or sensitive information; and distributing reports.

Reporting Auditors' Compliance with GAGAS – When auditors comply with all applicable GAGAS requirements for examination engagements, they should include a statement in the examination report that they performed the examination engagement in accordance with GAGAS. Because GAGAS incorporates by reference the AICPA's general attestation standard on criteria, the field work and reporting attestation standards, and the corresponding SSAEs, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS.

Reporting Deficiencies in Internal Control, Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse – When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).

Deficiencies in Internal Control – In addition to the AICPA requirements concerning internal control, when performing GAGAS examination engagements, including attestation engagements related to internal control, auditors should include in the examination report all deficiencies, even those communicated early, that are considered to be significant deficiencies or material weaknesses.

Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse – When performing a GAGAS examination engagement, and auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their examination report the relevant information about

- a. fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance,
- b. noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter, or
- c. abuse that is material to the subject matter or an assertion about the subject matter, either quantitatively or qualitatively.

When auditors detect any instances of noncompliance with provisions of contracts or grant agreements, or abuse that have an effect on the subject matter or an assertion about the subject matter that are less than material but warrant the attention of those

charged with governance, they should communicate those findings in writing to audited entity officials.

When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.

Presenting Findings in the Examination Report – When performing a GAGAS examination engagement and presenting findings such as deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should develop the elements of the findings to the extent necessary. Clearly developed findings, assist management or oversight officials of the audited entity in understanding the need for taking corrective action, and assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.

Reporting Findings Directly to Parties Outside the Audited Entity – Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.

- a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.
- b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is likely to have a material effect on the subject matter or an assertion about the subject matter and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements.

Reporting Views of Responsible Officials – When performing a GAGAS examination engagement, if the examination report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.

Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take.

When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.

When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.

Distributing Reports – Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on

report distribution. The following discussion outlines distribution for reports completed in accordance with GAGAS:

a. Audit organizations in government entities should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on engagement findings and recommendations, and to others authorized to receive such reports.

b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.

c. Public accounting firms contracted to perform an examination engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.

Additional GAGAS Considerations for Examination Engagements

Due to the objectives and public accountability of GAGAS examination engagements, additional considerations for examination engagements completed in accordance with GAGAS may apply. These considerations relate to

- a. Materiality in GAGAS examination engagements, and
- b. Early communication of deficiencies.

Materiality in GAGAS Examination Engagements – The AICPA standards require that one of the factors to be considered when planning an attest engagement includes preliminary judgments about attestation risk and materiality for attest purposes. Additional considerations may apply to GAGAS examination engagements of government entities or entities that receive government awards.

Early Communication of Deficiencies – For some matters, early communication to those charged with governance or management may be important because of the relative significance and the urgency for corrective follow-up action. Further, when a

control deficiency results in noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance.

8.5 REVIEW ENGAGEMENTS

Additional GAGAS Field Work Requirements for Review Engagements

GAGAS establishes a field work requirement for review engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with this additional requirement, along with the relevant AICPA standards for review engagements, when citing GAGAS in their review engagement reports. The additional requirement relates to communicating significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that come to the auditors' attention during a review engagement.

Communicating Significant Deficiencies, Material Weaknesses, Instances of Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse – If, on the basis of conducting the procedures necessary to perform a review, significant deficiencies; material weaknesses; instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse come to the auditors' attention that warrant the attention of those charged with governance, GAGAS requires that auditors should communicate such matters to audited entity officials.

Additional GAGAS Reporting Requirements for Review Engagements

GAGAS establishes reporting requirements for review engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements when citing GAGAS in their review engagement reports. The additional requirements relate to:

- a. reporting auditors' compliance with GAGAS; and
- b. distributing reports.

Reporting Auditors' Compliance with GAGAS – When auditors comply with all applicable requirements for a review engagement conducted in accordance with GAGAS, they should include a statement in the review report that they performed the engagement in accordance with GAGAS.

Distributing Reports – Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. For GAGAS review engagements, if the subject matter or the assertion involves material that is classified for security purposes or

contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution.

Additional GAGAS Considerations for Review Engagements

Due to the objectives and public accountability of GAGAS review engagements, additional considerations for review engagements performed in accordance with GAGAS may apply. These considerations relate to

- a. establishing an understanding regarding services to be performed; and
- b. reporting on review engagements.

Establishing an Understanding Regarding Services to be Performed –

The AICPA standards require auditors to establish an understanding with the audited entity regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors or the audited entity may misinterpret the needs or expectations of the other party. The understanding includes the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement.

Reporting on Review Engagements – The AICPA standards require that the auditors' review report be in the form of a conclusion expressed in the form of negative assurance.

Because reviews are substantially less in scope than audits and examination engagements, it is important to include all required reporting elements contained in the SSAEs. For example, a required element of the review report is a statement that a review engagement is substantially less in scope than an examination, the objective of which is an expression of opinion on the subject matter, and accordingly, review reports express no such opinion. Including only those elements that the AICPA reporting standards for review engagements require or permit ensures that auditors comply with the AICPA standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the review engagement.

8.6 AGREED-UPON PROCEDURES ENGAGEMENTS

Additional GAGAS Field Work Requirements for Agreed-Upon Procedures Engagements

GAGAS establishes a field work requirement for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with this additional requirement, along with the relevant AICPA standards for agreed-upon procedures engagements, when citing GAGAS in their agreed-upon procedures engagement reports. The additional requirement relates to communicating significant deficiencies, material weaknesses, instances of fraud,

noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that comes to the auditors' attention during an agreed-upon procedures engagement.

Communicating Significant Deficiencies, Material Weaknesses, Instances of Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse – If, on the basis of conducting the procedures necessary to perform an agreed-upon procedures engagement, significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse come to the auditors' attention that warrant the attention of those charged with governance, GAGAS requires that auditors should communicate such matters to audited entity officials.

Additional GAGAS Reporting Requirements for Agreed-Upon Procedures Engagements

GAGAS establishes reporting requirements for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements when citing GAGAS in their agreed-upon procedures engagement reports. The additional requirements relate to

- a. reporting auditors' compliance with GAGAS; and
- b. distributing reports.

Reporting Auditors' Compliance with GAGAS – When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they performed the engagement in accordance with GAGAS.

Distributing Reports – Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. For GAGAS agreed-upon procedures engagements, if the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution.

Additional GAGAS Considerations for Agreed-Upon Procedures Engagements

Due to the objectives and public accountability of GAGAS agreed-upon procedures engagements, additional considerations for agreed-upon procedures engagements performed in accordance with GAGAS may apply. These considerations relate to:

- a. establishing an understanding regarding services to be performed; and

b. reporting on agreed-upon procedures engagements.

Establishing an Understanding Regarding Services to be Performed –

The AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party.

Reporting on Agreed-Upon Procedures Engagements – The AICPA standards require that the auditors' report on agreed-upon procedures engagements be in the form of procedures and findings and specifies the required elements to be contained in the report.

Because GAGAS agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the SSAEs. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures, other matters might have come to their attention that would have been reported. Another required element is a statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.

The ARC IG and AIGA are responsible for implementation of attestation standards.

EXAMPLE MANAGEMENT REPRESENTATION MEMORANDUM

Date:

MEMORANDUM FOR: ARC Office of Inspector General

FROM: [ARC Organization Management]

SUBJECT: ARC Management Assurance Concerning
 [*project title or ARC Organization*]

- 1 This Letter is in connection with your attestation engagement of (subject). The (subject or criteria) is as of (date). This memorandum provides assertions for the purpose of (specifically list assertions).
2. We confirm, to the best of our knowledge and belief, the following representations made to you during the [*examination, review, agreed-upon procedures*], that these representations are accurate as of the date of your auditor's report and pertain to the period covered by the [*subject or assertion*].
 - a. We are responsible for the fair presentation of [*ARC organization subject matter or assertion*] based on the criteria selected.
 - b. The [*subject or criteria*] are fairly presented in conformity with XXX.
 - c. We have made available to you all records and related data to the [*assertions or subject matter*], all known matters contradicting the assertion, and any communication from regulatory agencies affecting the subject matter or the assertion have been disclosed.
 - d. No events have occurred subsequent to [*date*] that would have a material effect on the [*subject matter or related assertions*].
 - e. [*Representations made to the ARC–OIG in response to specific inquiries.*]
 - f [*Other matters the ARC–OIG deems appropriate.*]

[*Signed*]
[*ARC Organization*
Management]

EXAMPLE ENGAGEMENT MEMORANDUM

Date:

MEMORANDUM FOR: [ARC Organization]

FROM: IG

SUBJECT: Engagement Memorandum for [project title
and project number]

(The first paragraph is not needed if the attestation review is required.)

1. The purpose of this memorandum is to establish an understanding of the arrangements for the [examination, review, agreed-upon procedures] of the [ARC Organization]. The purpose of our [examination, review, agreed-upon procedures] is to [express an opinion, provide negative assurance, or issue a report of findings] of the [ARC Organization] in compliance with Generally Accepted Government Auditing Standards (GAGAS). Additionally, this engagement memorandum will serve as ARC management's confirmation regarding our joint understanding of the reliability of the [assertions or subject matter] of [ARC Organization].

[Auditor's Responsibilities]

2. The ARC–OIG will perform [examination, review, or if agreed upon procedures list the specific procedures]. The [examination, review, agreed-upon procedures] will be performed in accordance with GAGAS, which incorporates the financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA), as implemented by the Government Accountability Office (GAO). The ARC–OIG will follow the GAO or AICPA standards, as required. For the purpose of this engagement, ARC–OIG will attest [to the subject or criteria under review]. The ARC–OIG will meet with [ARC organization] as needed to discuss the procedures being used or followed, the results of the attestation engagement, and other issues of interest to ARC management.

Depending on the type of attestation being performed, choose one of the following:

- a. For this examination engagement, the client has engaged the ARC–OIG to perform sufficient work to express an opinion on the [assertions or subject matter] based on [selected criteria] for the engagement. The ARC–OIG performs all procedures necessary to assess inherent and control risk and to detect risk. These procedures must include inspection, confirmation, and observation. Because an examination engagement provides a high level of assurance, the ARC–OIG requires a written assertion from [the client] before the engagement can proceed.
 - b. For this review engagement, the client has engaged the ARC–OIG to perform sufficient work to express a conclusion and provide negative assurance on the [assertions or subject matter]. Because a review engagement provides a moderate level of assurance, the ARC–OIG requires a written assertion from [the client] before the engagement can proceed.
 - c. For this agreed-upon procedures engagement, [the client] has engaged the ARC–OIG to issue a report of finding based on the procedures described below. The ARC–OIG is not engaged to perform, and will not perform, an examination with the objective to express an opinion. The ARC–OIG will neither assist in the preparation of the information required to perform the agreed-upon procedures nor serve as an internal control function, which is the responsibility of the [ARC Organization]. If circumstances impose restrictions on the performance of agreed-upon procedures, the ARC–OIG must withdraw from the engagement.
3. The work of the ARC–OIG must result in one or more reports or memorandums intended for the information and use of [ARC Organization] and must not be used by those who have not agreed to the [examination, review, agreed upon procedures] or taken responsibility for the sufficiency of the [assertion, subject matter, or procedures] for their purposes. The report will be a matter of public record, and its distribution will not be limited.
4. [ARC Organization] responsibilities for the attestation engagement include:
- Providing a written assertion (required for an examination or review engagement, but optional for an agreed-upon procedures engagement).
 - Fairly presenting the [ARC Organization] subject in conformity with [list specific criteria].
 - Complying with laws and regulations.
 - Establishing and maintaining internal control over [type of] reports and data.
 - Providing auditors with timely [subject] data and other data necessary to complete this engagement.

For additional information, please contact [Mr./Ms.] at [(XXX) XXXXXXXX] or [Mr./Ms.] at [(XXX) XXX-XXXX].

If this memorandum, including any attachments, expresses your understanding, please sign below and return a copy of the signed memorandum to the [OIG Office]

CHAPTER 9

NONAUDIT SERVICES

9.0 PURPOSE

This chapter establishes policies and procedures for performing nonaudit services.

9.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011 Revision

Provision of Nonaudit Services to Audited Entities, 3.33 – 3.58

9.2 BACKGROUND

Auditors may provide professional services other than audits and attestation engagements, which are referred to as nonaudit services or consulting services and include any services OIG provides that are not covered by GAGAS.

However, in order to maintain a high degree of integrity, objectivity, and independence for audits, in certain circumstances it is not appropriate for OIG to perform audits or attestation engagements and provide nonaudit services concurrently for the same organization.

9.3 RESPONSIBILITIES

IPAs and Other Contractors are required to comply with this chapter and Chapter 13, Paragraph 13.4 Assessing Contractor Qualifications and Independence, when performing nonaudit services under contract.

IG and AIGA evaluate requests for nonaudit services and determines whether independence can be maintained. If readily apparent, the IG may approve or decline the request for nonaudit services.

When OIG declines to provide nonaudit services, the IG or AIGA will inform management of the requesting organization by issuing a Memorandum Declining to Perform a Nonaudit Service. The memorandum will explain why the OIG determined that the requested nonaudit service could not be provided. The memorandum will also provide a point of contact in case the requestor wishes to further discuss the decision.

9.4 ORGANIZATIONAL INDEPENDENCE WHEN PERFORMING NONAUDIT SERVICES

OIG must evaluate whether providing nonaudit services would create an independence impairment either in fact or appearance with respect to entities they audit (refer to paragraph 9.5).

OIG should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditor is not able to maintain independence and is therefore not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

9.5 OVERARCHING PRINCIPLES AND INDEPENDENCE SAFEGUARDS

Two Overarching Principles — Before OIG agrees to perform nonaudit services, OIG management will carefully consider whether independence can be maintained by applying two overarching principles:

- Audit organizations must not provide nonaudit services that involve performing management functions or making management decisions.
- Audit organizations must not audit their own work or provide nonaudit services in situations where the nonaudit services are significant or material to the subject matter of audits.

Independence Safeguards — If a nonaudit service does not conflict with either of the overarching principles, and the AIGA approves the request for the nonaudit service, the service may be provided as long as the auditors comply with the following safeguards:

- Document their consideration of the nonaudit service, including conclusions about the impact on independence.
- Establish and document an understanding with the audited entity regarding the objectives, scope of work, any limitations of the engagement, and product or deliverables of the nonaudit service, including an understanding that management is responsible for the results of the service.
- Exclude personnel who performed nonaudit services from performing any related audit work.
- Do not reduce the scope and extent of audit work beyond the level that would be appropriate if the nonaudit services were performed by another unrelated party.

9.6 TYPES OF NONAUDIT SERVICES

Nonaudit services generally fall into one of three categories: (a) nonaudit services that do not impair the audit organization's independence, (b) nonaudit services that would not impair independence if supplemental independence safeguards (previously discussed) are implemented, and (c) nonaudit services that would impair independence.

Nonaudit services that do not impair the audit organization's independence (Routine) — These include nonaudit services in which auditors provide technical advice based on their technical knowledge and expertise. These services are considered "routine" or normal interaction between the auditor and auditee. These "routine" services do not impair auditors' independence with respect to entities they audit and do not require auditors to apply the supplemental safeguards. Examples of the types of services considered technical advice include the following:

- Participating in management committees, working groups, or task forces in an advisory capacity.
- Providing tools and methodologies, such as guidance and good business practices, benchmarking studies, and internal control assessment methodologies that can be used by management.
- Answering technical questions.
- Providing training.
- Advising an organization regarding implementing internal controls and audit recommendations.
- Providing information or data to a requesting party without auditor evaluation or verification of the information or data.
- Assisting a legislative body or management by developing questions for use at hearings.

Nonaudit services that would not impair independence if supplemental independence safeguards (previously discussed) are implemented (other-than-routine) — These services include performing tasks that directly support an organization's operation or provide information or data without providing verification, analysis, or evaluation of data. These tasks are considered "other-than-routine" nonaudit services.

Services that do not impair OIGs independence with respect to the entities they audit so long as they comply with the supplemental independence safeguards include:

- Providing basic accounting assistance limited to services such as preparing draft financial statements that are based on management's chart of accounts that have been approved by management. If OIG provides basic accounting assistance, the auditor should obtain documentation from management in which management acknowledges the audit organization's role and management's responsibility for the financial statements.
- Providing payroll services when payroll is not material to the subject matter of the audit or audit objectives. Such services are limited to using records and data approved by the entity management.
- Providing appraisal or valuation services such as reviewing the work of the entity or a specialist employed by the entity where management has determined and taken responsibility for all significant assumptions and data.
- Preparing an entity's indirect cost proposal or cost allocation plan provided the amounts are not material to the financial statements and management assumes responsibility for all significant assumptions and data.
- Providing advisory services on information technology limited to services such as advising on system design, system installation, and system security, if management acknowledges responsibility for design, installation, and internal control over the entity's system.
- Providing human resource services to assist management in its evaluation of potential candidates when the services are limited to activities such as serving on an evaluation panel of at least three individuals to review applications or interview candidates to provide input to management.

Nonaudit services that would impair independence (Not Permitted) — OIG will not provide any nonaudit service that it determines will impair its organizational independence. Certain nonaudit services, by their very nature, impair an audit organization's ability to comply with the overarching principles of the independence standard. Therefore, OIG will not provide the following nonaudit services:

- Staff will not serve as voting members of another ARC organization's management committee.
 - Staff will not make policy decisions that affect future direction and operation of a ARC program.
 - Staff will not supervise another ARC organization's employees; authorize another ARC organization's transactions; or maintain custody of another ARC organization's assets, such as inventories, equipment, or other assets owned, leased, or otherwise in the organization's possession.

- Staff will not design, develop, install, implement, or operate any management system to include accounting, internal control, performance measurement, or information technology systems.

9.7 REQUEST FOR NONAUDIT SERVICES

Nonaudit services that do not impair the audit organization's independence — OIG will generally accept a verbal request for "routine" nonaudit services. OIG will require a written request when OIG estimates the resources needed to provide the nonaudit service are more than minimal, when the requestor wants formal documentation, or when requesting OIG participation on a task force, working group, or advisory team.

Nonaudit services that would not impair independence if supplemental independence safeguards (previously discussed) are implemented — Other-than-routine nonaudit services are not considered part of the normal interaction between auditor and auditee; therefore, the auditee must request the service in writing. Because OIG must maintain its organizational independence while performing a requested nonaudit service, management of the requesting organization must agree to accept the responsibilities and perform the functions described in paragraph 9.5, the second Independence Safeguard. Evidence of requesting management's oversight may be in the form of meeting minutes and/or electronic mail traffic.

9.8 DOCUMENTING TIME CONDUCTING NONAUDIT SERVICES

Documenting Time for Routine Nonaudit Services — Auditors providing routine nonaudit services must still comply with the underlying principles required by the independence standard, but are not required to apply the additional independence safeguards previously discussed.

- Incidental (less than 40 hours) time spent on routine nonaudit services should be recorded as indirect time using Nonaudit Services.
- If greater than 40 hours, establish a project code for charging time. When OIG agrees to participate on a task force, working group, or advisory team, OIG will issue a Memorandum for Participation in an Advisory Capacity and have management co-sign the memorandum or otherwise indicate acceptance. The memorandum explains the OIG role and limitations as an advisor.

Documenting Time for Other-than-Routine Nonaudit Services — Other-than-routine nonaudit services must comply with the underlying principles required by the independence standard and apply the independence safeguards previously discussed.

- All time spent on other-than-routine nonaudit services should be charged to a project code and identified as a nonaudit service.

9.9 PERFORMANCE OF NONAUDIT SERVICES

OIG will perform the requested nonaudit services using procedures agreed to by the requester. When OIG issues a report on a nonaudit service, the report will clearly indicate that it is not an "audit" or "evaluation" and that the work was not done in accordance with GAGAS. In addition, the report will describe the objectives, scope of work, procedures, and standards that OIG used.

The report will contain a disclaimer on the front cover stating the following:

This document contains information provided as a nonaudit service to [Identify organization]. [If the document contains data or information, indicate from where the data/information was obtained and that the data or information was not verified or analyzed, that is, that no audit procedures were performed on it.] Therefore, any work performed was not done in accordance with GAGAS. However, prior to performing the nonaudit service, we did determine that it would not impair our independence to perform audits, evaluations, attestation engagements, or any other future or ongoing reviews of the subject.

Reports issued as a result of nonaudit services will be recorded in AIRS and listed in the Semiannual Report Schedule, "Other Reports Issued." Depending on their significance, nonaudit services may be highlighted in the body of the Semiannual Report.

CHAPTER 10

INDEPENDENCE AND ETHICAL PRINCIPLES

10.0 PURPOSE

This chapter establishes policies and responsibilities for ensuring compliance with GAGAS independence and ethical principles. In order for work to be accepted by ARC management, Congress, and other significant users, staff must be considered independent, serve the public interest, and maintain integrity and objectivity.

10.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

Independence, 3.02-3.32, Appendix I, A3.02-A3.08, Appendix II
Ethical Principles, 1.10-1.24

Code of Federal Regulations 5 CFR § 2635, et seq.

10.2 POLICY

All OIG staff, including contracted audit services personnel, shall be independent in mind and appearance in all matters relating to audit work.

All OIG auditors, including contracted audit services personnel, must serve the public interest and meet the highest standards of integrity, objectivity, and professional skepticism. When subjected to conflicting pressures during audit assignments, auditors must make decisions that are consistent with the public interest in the program or activity under review. They should observe both the form and spirit of technical and ethical standards. Auditors need to be professional, objective, factual, honest, non-partisan, and non-ideological in their relationships with audited entities. They should be prudent in the use of information and must not use it for personal gain or in a way that would be detrimental to the legitimate and ethical objectives of the audited entity. Auditors must use professional judgment when planning and performing audits and attestation engagements and in reporting the results.

10.3 RESPONSIBILITIES

Auditors assigned to an audit project must remain cognizant of both real and perceived threats to independence and immediately notify their supervisor if they are assigned to a project for which they have a change in status.

IPAs and Other Contractors are required to comply with applicable sections of the Handbook and GAGAS, as it relates to independence and ethics, when performing audit work under contract.

IG or AIGA, at the beginning of each project and throughout the course of the project, will ensure all staff, including specialists involved with the project, are in compliance with GAGAS independence requirements.

IG or AIGA, at the beginning of each project and throughout the course of the project, will ensure all staff, including specialists involved with the project, are in compliance with GAGAS independence requirements.

In cases where it is unclear that an auditor can be considered independent, the IG will work with the AIGA, as necessary, to make a determination whether the auditor remains on the project.

OIG will obtain annual independence certifications for **OIG** staff required to complete the certification (refer to paragraph 10.5).

10.4 CONCEPTUAL FRAMEWORK APPROACH TO INDEPENDENCE

Auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance.

Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:

- identify threats to independence;
- evaluate the significance of the threat identified; and
- apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

Threats to independence are circumstances that could impair independence. If threats are identified, auditors should determine whether the identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level by applying necessary safeguards.

If one or more of these threats affects an individual auditor's capability to perform the work and report results impartially, then that auditor should discuss the threat with their supervisor to determine how to resolve the threat, which might include reassigning the auditor. In situations where OA cannot resolve the threat, the threat or threats should be reported in the scope section of the audit report.

Auditors should evaluate the following broad categories of threats:

Self-interest threat — the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior;

Self-review threat — the threat that 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.

Bias threat — the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;

Familiarity threat — the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;

Undue influence threat — the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments;

Management participation threat — 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; and

Structural threat — the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively. OIG auditors can be presumed to be free from organizational impairments to independence when reporting externally to third parties. OIG is organizationally independent from the audit entity, as shown on the ARC Organizational Chart. In addition, the Inspector General Act of 1978 provides statutory safeguards that mitigate the effects of structural threats to independence as described in GAGAS 3.29 and 3.30.

10.5 ANNUAL INDEPENDENCE CERTIFICATION

OIG requires OIG staff to disclose threats to independence that could affect the impartiality or the appearance of impartiality of their work.

Auditors will consider all ARC program areas and will apply the conceptual framework approach to independence as established by GAGAS. This approach will assist auditors to identify, evaluate, and apply safeguards to address threats to independence.

10.6 JOB SPECIFIC INDEPENDENCE CERTIFICATION

Occasionally, other personnel may be called upon to assist the auditors but do not have a direct influence on the objectives, methodology, data gathering and analysis and report message. For these personnel, the AIGA would have a conversation with the individuals and affirm they do not have a threat to independence.

10.7 END OF PROJECT CERTIFICATION

The AIGA will certify that the auditors remained independent throughout the course of the project, or certify and document that any independence issues that arose were eliminated or reduced to an acceptable level.

10.8 THREAT IDENTIFIED AFTER REPORT ISSUED

If a threat to independence is identified after the audit report is issued, the OIG should assess the impact on the audit. If the OIG concludes that it did not comply with GAGAS, it should determine the impact on the auditors' report and notify entity management, those charged with governance, the requestors, or regulatory agencies that have jurisdiction over the audited entity, and persons known to be using the audit report about the independence threat and the impact on the audit. This notification should be in writing.

10.9 ETHICAL PRINCIPLES

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work according to GAGAS to follow ethical principles. These principles provide the foundation, discipline, and structure which influence the application of GAGAS.

The ethical principles that guide the work of auditors are:

- public interest
- integrity
- objectivity
- proper use of government information, resources, and position - professional behavior

Public Interest — Defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principles of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.

A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embodies the concept of accountability for public resources, which is fundamental to serving the public interest.

Integrity — Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological in regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.

Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to violate ethical principles to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

Objectivity — The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation services, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.

Proper Use of Government Information, Resources, and Position — Government information, resources, or positions are to be used only for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.

In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

As accountability professionals, accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities are important elements in the public's expectations for auditors.

Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.

Professional Behavior — High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors' putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.

CHAPTER 11

AUDIT SAMPLING

11.0 PURPOSE

This chapter establishes policies and procedures for performing nonstatistical and statistical sampling and reporting sampling results. This chapter is not intended to be a comprehensive guide to audit sampling.

11.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Sufficient and Appropriate Evidence, 4.11, 4.13, 4.15, 5.12, 5.14, 5.16 – 17, 6.56-6.68.
- Reporting Standards for Performance Audits — Objectives, Scope, and Methodology 7.09, 7.13

AICPA Audit Guide on Audit Sampling, May 1, 2008

SAS No 39, Audit Sampling

SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling

11.2 POLICY

When performing audits, auditors must determine if sampling should be used to accomplish the audit objectives. When sampling is appropriate, auditors must determine when statistical sampling is more appropriate than non-statistical sampling. Auditors must prepare a sampling plan, in consultation with the OA statistician. When sampling significantly supports auditors' conclusions, the audit report must describe the sample design and state why the sample design was chosen and whether results can be projected to the intended population.

11.3 RESPONSIBILITIES

IG or AIGA is responsible for the development of a sample plan that is appropriate for the project and will support the audit objectives. In addition, the IG or AIGA are responsible for the following:

- Approving the sampling plan and any changes to the sampling plan;
- Providing support to the audit team;
- Conducting interim evaluations of sampling results;

- Completing projections;
- Reviewing draft reports for accuracy in reporting sampling methodology and sampling results;
- Defending sampling methodology and reliability of results as necessary; and
- Reviewing IPA sample design and reliability of results.

Auditors, if available, have the overall responsibility to develop and document the sampling plan in conjunction with the AIGA. Auditors must have a full understanding of their sample objective and how they intend to use the results.

Auditors are responsible for the following:

- Discussing all audits with the AIGA to explore whether to use statistical sampling or nonstatistical sampling. Auditors must involve the AIGA early in the process, when the review methodology is being developed;
- Ensuring the sample data provided to the AIGA are accurate and reasonably complete, and advising the statistician of any irregularities in the data that could affect the sampling plan or conclusions drawn from the sample;

AIGA is responsible for training and supervising available audit staff to ensure that sampling procedures, done as part of the field work, are properly completed and in accordance with the sampling plan. Additionally, IG or AIGA will oversee the development of the sampling plan and approve any changes to the sampling plan.

As necessary obtain services of a statistician.

11.4 SAMPLING APPROACH – NONSTATISTICAL VS. STATISTICAL

Audit sampling is the application of an audit procedure to less than 100 percent of the population for the purpose of evaluating some characteristic of the population. All audit sampling involves judgment in planning and performing the audit procedure and evaluating the results of the sample. There are two approaches to audit sampling – nonstatistical sampling and statistical sampling. Either approach, when properly applied, can provide sufficient evidential matter.

The sufficiency of evidential matter is related to the design and size of an audit sample, among other factors. The size of the sample necessary to provide sufficient evidential matter depends on both the objectives and the efficiency of the sample design.

A properly designed nonstatistical sampling plan that considers the same factors that would be considered in a properly designed statistical sample can provide results that are as effective as those from a properly designed statistical sampling plan. However, there is one important difference: statistical sampling explicitly measures the sampling risk associated with the sampling procedure by providing an explicit level of sampling risk (also expressed as its complement - confidence or reliability) and allowance for sampling risk (that is, precision).

Statistical Sampling uses the laws of probability for selecting and evaluating the sample for the purpose of reaching a conclusion about the population. In addition, statistical sampling uses the law of probability to measure sampling risk. It helps the auditor (1) design a sufficient sample, (2) measure the sufficiency of the audit evidence obtained, and (3) quantitatively evaluate the sample results.

Nonstatistical Sampling is any sampling procedure that does not permit the numerical measurement of the sampling risk. The auditor relies on professional judgment in evaluating the results and reaching an overall conclusion.

11.5 SAMPLING RISK

Auditors should consider sampling risk when determining the sample approach and developing the sampling plan.

Sampling risk is the probability that sample results are not representative of the entire population. Sampling risk arises from the possibility the auditor's conclusion may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure.

Sampling risk includes the risk of assessing control risk too low and the risk of assessing the control risk too high, as well as the risk of incorrect acceptance and the risk of incorrect rejection.

- Risk of assessing control risk too low – The risk of over reliance on the control caused when the control deviation rate observed in the sample is less than the true deviation rate in the population.
- Risk of assessing control risk too high – The risk of under reliance on the control caused when the control deviation rate observed in the sample is greater than the true deviation rate in the population.
- The risk of incorrect acceptance – The risk that material misstatement is assessed as unlikely when, in fact, the population is materially misstated.
- The risk of incorrect rejection – The risk that material misstatement is assessed as likely when, in fact, the population is not materially misstated.

In general, factors that may lessen sampling risk include:

- Taking a larger sample
- Using random sample selection methods
- Stratifying the sample
- Properly defining test objectives
- Properly defining a deviation
- Properly defining the population
- Properly evaluating errors

11.6 DESIGNING A SAMPLING PLAN

With proper planning, sampling provides a practical and efficient means to collect data that expends fewer resources and reviews fewer records or transactions when it is not practical or cost effective to examine all records or transactions in detail. Proper planning is critical for auditors to obtain sufficient and appropriate evidence to support findings and conclusions. Therefore, the sampling plan must be an integral part of the overall audit planning process.

Sampling Plan Elements — Auditors must prepare a **detailed** sampling plan for both statistical and nonstatistical sampling. Sampling plans will generally address the elements contained in paragraph 11.7–11.14 (note – not all elements will be applicable for nonstatistical sampling plans).

11.7 DEFINE TEST OBJECTIVES

Auditors must have a clear understanding of what they want to accomplish with the sample. To define the test objective, auditors must first determine whether the sample will be used to test a qualitative characteristic (attribute) or a quantitative characteristic (variable), or both.

The distinction is important because the methods eventually used to determine optimum sample sizes and evaluate sample results differ.

Attribute sampling is a form of compliance testing that is qualitative in nature. It is used to reach a conclusion about a population in terms of a rate of occurrence, or when the objective is to measure a certain attribute of the population, such as error rate. Attribute sampling should be used when the objective is to answer the questions “how many” or “how often.”

Variable sampling is a form of substantive testing that is quantitative in nature. It is used when the auditor desires to reach a conclusion about a population to estimate dollar values, weights, distances, time periods, costs, or other measurable values that are variable in nature. Variable sampling should be used when the objective is to answer “how much.”

Dual-Purpose Sampling is a form of testing that is both qualitative and quantitative in nature. It is used when the auditor desires to reach a conclusion about a population in terms of a rate of occurrence, or when the objective is to measure a certain attribute of the population, such as error rate and to estimate dollar values, weights, distances, time periods, costs, or other measurable values that are variable in nature. Dual-purpose sampling should be used when the objective is to answer “how many” and “how much.” In general the size of a sample designed for dual purposes should be the larger of the samples that would otherwise have been designed for the two separate objectives.

11.8 DEFINE POPULATION/SAMPLING FRAME

Auditors will define the population or sampling frame as it relates to the test objectives. Auditors should determine whether the selected population is appropriate for the specific test objective, because sample results can be projected only to the population from which the sample was selected. Also, auditors will consider completeness of the population and identify individually significant items to include for testing.

Population consists of all items of any clearly defined group of people, events, class of transactions, contracts, geographic locations, time period, etc., from which you will draw your sample. Population should include the total number from which you will draw your sample and the time period covered. If transactions, the population could be total number of transactions, value of transactions, time period, etc. If contracts, the population could be the total number of contracts, the value of contracts, time period, etc.

Also, auditors need to define the population based on the desired sampling method (refer to paragraph 11.10 for the various sampling methods). For example, if you select multistage sampling consisting of 4 stages, your population could be defined as:

- Stage 1 – Number of Regions
- Stage 2 – States within each region
- Stage 3 – Districts within each state
- Stage 4 – Personnel served by each district

Completeness – The auditor should consider whether the physical representation includes the entire population. If the physical representation and the population differ, the auditor might draw erroneous conclusions if the results are projected to the entire population.

Identify individually significant items – Auditors use judgment to determine which items, if any, represent individually significant items that should be individually tested and separates them from the remaining population, which may be sampled. Individually significant items could be identified by virtue of size, materiality, or risk.

Sampling frame is the source material or device from which a sample is drawn. It is a list of all those items within a population that can be sampled.

11.9 DEFINE THE SAMPLING UNIT

The auditor should define the sampling unit in light of what is being tested and the type of records kept by the auditee. A sampling unit is any of the individual elements constituting the population. A sampling unit may be, for example, a document, an entry in a journal, a line item, or a single transaction. In other words, what item, measure, or unit will the audit team specifically test?

An overly broad definition of the sampling unit might not be efficient. For example, if the auditor is testing a control over the pricing of invoices and each invoice contains up to ten items, the auditor could define the sampling unit as an individual invoice or as a line item on the invoice. If the auditor defines the invoice as the sampling unit, the auditor would test all the line items on the invoice. If the auditor defines the line items as the sampling unit, only the selected line items need testing.

11.10 DETERMINE THE SAMPLING METHOD (DESIGN)

Once the auditor determines their overall test objective, the auditor defines what sampling method to use. OA uses the following types of statistical sampling methods for either attribute or variable sampling or a combination of the various methods.

Unrestricted Random Sampling selects units with equal probability and without replacement. In other words, any unit selected in a sample cannot be selected again for the same sample.

Stratified Sampling divides the population into groups called strata (relatively homogeneous units). A sample is then drawn from each stratum to obtain a more efficient estimate of the total population. Stratified sampling minimizes the variation within each stratum at the expense of variation between the strata.

Cluster Sampling divides the population into groups or clusters (primary sampling units). A number of clusters are selected randomly to represent the population, and then all units (secondary sampling units) within selected clusters are included in the sample. No units from non-selected clusters are included in the sample. They are represented by those from selected clusters.

This differs from stratified sampling, where some units are selected from each group.

Multistage Sampling is like cluster sampling, but involves selecting a sample within each chosen cluster, rather than including all units in the cluster. Thus, multistage sampling involves selecting a sample in at least two stages.

The population is first subdivided into a number of primary sampling units. Some of these units are then randomly selected as the sample of the first stage and these units are then subdivided into a series of secondary sampling units. Some of these secondary units are then randomly selected as the sample of the second stage. This process can be repeated for third and further stages.

11.11 DETERMINE SAMPLE SIZE

Auditors, in consult with the AIGA, will determine the sample size based on the sampling method. Determining sample size is a very important issue because samples that are too large may waste time, resources, and money, while samples that are too small may lead to inaccurate results. Auditors must determine the number of sample units to be included in the sample. A sample must be large enough to give a good representation of the population, but small enough to be manageable.

The size of the sample necessary to provide sufficient evidential matter depends on the test objectives, population, and the efficiency of the sampling method. In addition, an appropriate sample size is based on a number of factors the auditor must consider, which vary depending on whether the sample objective tests for attributes, variables, or both. These factors include population variation, risk, tolerable error rate or misstatement, and expected error rate or misstatement.

Determine variation within the population — Variability is the degree to which the units being measured are distributed throughout the population. A heterogeneous population will be harder to measure precisely than a homogeneous population. Therefore, the higher the degree of variability you expect the distribution to be in your target population, the larger the sample size must be to obtain the same level of precision.

Determine acceptable level of risk — Auditors will define the level of risk they are willing to accept. The lower the acceptable risk auditors are willing to accept require a higher confidence level, therefore, a larger sample size is needed.

It may be practical to vary the risk in response to such factors as the allowance for sampling risk (precision) and the explicit level of sampling risk (confidence level).

- Precision is the planned allowance of sampling risk. It is the range or tolerance at which the estimate of the population characteristics will fall at the stipulated confidence level. Precision is usually expressed as a plus-or-minus percentage, such as +/-5 percent, or as an amount, such as +/- \$5,000. High levels of precision (tighter precision) require larger sample sizes and higher costs to achieve those samples.

- Confidence level is the explicit level of sampling risk. It involves the risk you're willing to accept that your sample is within the average or "bell curve" of the population. A confidence level of 90% means that, were the population sampled 100 times in the same manner, 90 of these samples would have the true population value within the range of precision specified earlier, and 10 would be unrepresentative samples. Higher confidence levels require larger sample sizes.

Consider tolerable error rate or misstatement — Tolerable error rate is the maximum population rate of deviations the auditor will tolerate without modifying the planned assessed level of control risk and risk of material misstatement. Tolerable misstatement is the maximum error in the population the auditor is willing to accept.

Consider expected error rate or misstatement — The auditor estimates the expected error rate or misstatement by considering such factors as results from prior-year tests, design of internal controls, and the control environment. There is a direct relationship between expected error rate or misstatement and the sample size. As the expected error rate or misstatement increases, the sample size increases.

Auditors should work with the IG or AIGA to determine how to obtain this information and whether the information they have obtained is adequate. Auditors and the AIGA will review the relevant factors to establish the appropriate sample size. The auditors will document the factors, how the factors were selected, and the reasons for the sample size selected as part of the sampling plan.

11.12 METHOD OF SELECTING THE SAMPLE

Auditors will explain how the sample items were selected for either statistical or nonstatistical sampling. Sample items should be selected in such a way the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected. These principles apply whether one applies statistical or nonstatistical sampling. For statistical sampling, it is necessary to use an appropriate random sampling method or systematic sampling. In nonstatistical sampling, the auditor should use a sample selection approach that approximates random sampling.

In addition, items selected must be valid and reliable. "Valid" means what you select is what you intended to select. "Reliable" means if you repeated the selection process you would have the same outcome (consistent and stable).

While there are many sampling methods, OIG generally uses simple random sampling or systematic sampling.

Simple Random Sampling — Every combination of sampled units has the same probability of being selected. To select a random sample, the auditor may generate random numbers with a computer or select them from a random-number table. Auditors will document the source of the random numbers and include a copy of the output in the audit documentation.

Systematic Sampling — Sometimes called interval sampling, this type of sampling means there is a fixed gap, or interval, between each selection. This technique requires the first item to be selected at random as a starting point for testing, and thereafter, every n^{th} item is chosen. Systematic sampling may include one or more random starts. Auditors will document the interval used, rationale for the interval selected, and how they determined the random start. They will also document the source of the numbers and include a copy of the output in the workpapers.

11.13 PERFORMING THE TEST

After selecting the sample units, the auditors will examine the selected items to determine if they contain any deviation. Prior to examining the selected items, the auditor in charge will first establish measurement characteristics to guide the auditors in performing the tests. The measurement characteristics establish criteria auditors will use to determine whether a sample item entirely meets the criteria of an error or only partially meets the criteria. The criteria should establish specific decision results so all items will be treated in a like manner.

The measurement characteristics should address the following:

Define what constitutes an error — Identify the characteristics that would indicate acceptable performance and define the possible deviation conditions which should be considered an error. For attribute testing, an error could be a difference in procedures or a control missing. For variable testing an error could be a difference in amounts. When defining an error, consider risk and materiality or significance.

Unused or inapplicable items — How auditors treat unused or inapplicable items is usually the same. As an example, a sequence of vouchers might include unused vouchers or an intentional omission of certain numbers. If the auditor selects such a document, the auditor should obtain reasonable assurance the voucher number actually represents an unused voucher and does not represent a deviation. The unused voucher may then be replaced with an additional voucher.

Inability to examine selected items — If a selected item cannot be located or if the auditor is unable to examine the selected item for any other reason, the auditor considers whether there are alternatives for performing the test on this sample item. If not, the auditor should consider the selected item a deviation. In addition, the auditor should consider the reason for this limitation and the effect it would have on the test objective.

During testing, auditors should periodically evaluate their results in consultation with the AIGA to determine if there is a need to stop testing or adjust the sample plan.

Stopping the test before completion — Occasionally the auditor might find a number of deviations in testing the first part of the sample. As a result, the auditor might believe the results would not support the planned assessed level of control risk or any reliance on the control tested. Under these circumstances, the auditor, in consultation with the AIGA, should reassess the level of control risk and consider whether it is appropriate to continue the test.

Re-evaluation of estimated population characteristics — Auditors should test the viability of the sample plan using approximately 30 of the items selected. Auditors should consult with the AIGA at this time to discuss whether the results are different from what was expected or whether the planned procedures work and the results meet your expectations. The sample should also be evaluated to determine if it is representative of the population.

The average value of the sample should be similar to the average value of the population. If expectations are not met or if the average values are not similar to the sample, the auditors, in consultation with the AIGA, may modify the sampling plan or select a new sample.

11.14 EVALUATING THE SAMPLE RESULTS

After completing the examination of the sampling units, auditors will summarize the deviations and evaluate the results in consultation with the AIGA.

The purpose of the evaluation is to determine whether:

- the results are acceptable based on the sample design and intended purpose; or
- the results can be projected to the population.

In addition, the auditor should consider the qualitative aspects of the deviations or misstatements. These include: (1) the nature and cause of the deviation, such

as whether it resulted from fraud or errors that arose from misunderstanding of instructions or carelessness, and (2) the possible relationship of the deviations to other phases of the audit.

The cause of the error is critical to understanding the nature of the problem and making appropriate recommendations.

The AIGA will compare actual results with expected results and determine if the results are acceptable. If the results are acceptable, the AIGA will make the statistical projection. If the results are not acceptable, the AIGA will consult with the audit manager and make a recommendation on what can be reported.

11.15 DOCUMENTING THE SAMPLING PLAN

Audit documentation must fully and clearly document all aspects of the sampling plan, to include the testing procedures and evaluating the results as described in paragraph 11.4–11.14. This documentation must be prepared for each sample (nonstatistical and statistical) and must comply with audit documentation policies (refer to Chapter 5, Paragraph 5.6, Audit Documentation).

Documenting the Evaluation — Auditors are responsible for documenting how the results are evaluated. The auditor should consult with the AIGA to gain a thorough understanding of the methodology used to evaluate the results. The auditors will include the following, as applicable:

- Evaluation software
- Estimates used including rationale and calculation of estimates
- Detailed summary of the deviations
- Determination of compliance and how calculated
- The calculation and analysis of the resulting precision percentage and any actions taken for unacceptable precision
- The total value impact and how calculated
- The impact on other years/areas and how determined if applicable
- Detailed estimation methodology

Using Exhibit A, Part 3, the following items will be completed and presented to the statistician for estimating the results:

- Population
- Sample Size

- Actual Number of Errors
- Tolerable Error Rate
- Expected Error Rate
- Desired Precision
- Confidence Level

The results should be presented to the statistician based on the sample method used. Evaluation and estimating the results will depend on the sample design.

Simple Random Sample Design:

- Total # deviations for attributes
- Difference for each sample item between book value and audit value for variables

Stratified:

- Same kind of information for each strata.

Other designs:

- Statistician will provide you with sample data format he needs.

In addition to Exhibit A, auditors will document testing procedures to include the purpose of the test, the procedures performed, how the deviations were evaluated, the results, and any other details necessary to enable an experienced auditor having no prior connection to the audit to understand the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained, its source, and the conclusions reached.

11.16 REPORTING SAMPLE RESULTS

General Requirements — When auditors use sampling during an audit, they must include in the report the sampling information related to the scope, methodology, and findings. How the auditors may best report the results of the sample depends on the techniques they used to evaluate the sample.

When reporting audit results, auditors may:

- Project sample results to the sample population only from statistically valid samples and only to those items that had a chance of being selected for the sample.
- Apply sample results from nonstatistical samples only to the reviewed sample items and not project these sample results to the sample population.

- Not project the results from one audit site to other sites unless performed as part of a statistically valid multi-site review, in which all sites had an equal chance of being selected.

Methodology Section of the Report — For performance audits, auditors will describe the following where applicable:

- population or sampling frame
- sampling unit
- sample size
- precision and confidence level
- how the sample accomplishes the test objective
- method used to evaluate the results and include whether the results can be projected to the intended population

Reporting Results — How to present the results for a performance audit will depend on the type and objective of the sample. The sample results may be reported as a narrative, in a table or as an exhibit. Regardless of the form of presentation, the reported results must include the following for variable and attribute sampling:

Variable – Generally, OIG uses projections for determining funds put to better use, determining other monetary impact, or making other monetary based conclusions.⁷ For funds put to better use, OIG generally uses the point estimate; however, one-sided projections or the range may also be appropriate. The reported results should also include the confidence level and precision.

Attribute – OIG generally uses projections for reporting the extent of errors in the population tested and supporting the related conclusions in the report. The projections can be reported as a point estimate, range, or one sided projection. Auditors will determine the most appropriate and meaningful way to present the results based on the objective of the sample. The reported results should also include the confidence level and precision.

⁷ OA generally does not use projections for questioned cost. Questioned costs are generally based on actual occurrences observed rather than projections.

EXHIBIT A: SAMPLING PLAN

PART 1 – Initial Communication between the audit control point and the statistician to determine the sampling plan.

Project Number	
Audit Title	
AIGA	
IG	
Lead Auditor (If Available)	

1. Sample Test Objective:

2. Sample Approach:

_____ Statistical

_____ Nonstatistical

3. Population:

Completeness verified?

Identify individually significant items?

Sampling Frame:

4. Sampling Unit:

5. Internal Control/Risk Assessment: Low Moderate High

6. Expected Error rate: _____%

7. Precision Desired: 3% 5% 7% Other_____

8. Confidence Level: 90% 95% Other_____

PART 2 – Communication between the audit control point and the statistician to complete the sample planning process.

9. Sampling Method (Design):

10 Determine Sample Size:

Relevant Factors:

11 Method of Selecting Sample Items:

_____ Random

_____ Systematic

Explain:

Source of Random Numbers:

12. Perform the Tests:

Characteristics to be measured:

13. Evaluate Results:

14. Description of how results will be reported:

15. Determine variation within the population:

16. Determine acceptable level of risk:

Precision:

Confidence Level:

16. Tolerable error rate or misstatement:

18. Consider expected error rate or misstatement.

Factors:

19. Sample Size Based on Sample Method:

PART 3 – Evaluating and reporting the sample results.

20. Errors: (Based on sample design)

21. Comparison of actual results with expected results:

22. Are the results acceptable? If yes, explain.

Include the calculation and analysis of the resulting precision percentage and any actions taken for unacceptable precision must be included.

If no, explain

23. What are the reportable amounts?

How will this be presented in the body of the report?

24. What estimation methodology was used?

How was the reportable amounts calculated?

How did we define our population/frame?

Our unit?

What is the time period?

Develop your scope/methodology for the report:

CHAPTER 12

AUDITING COMPUTER PROCESSED DATA

12.0 PURPOSE

This chapter establishes policies and provides guidance for auditing computer-processed data⁸ used to support findings and conclusions.

12.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Obtaining Sufficient, Appropriate Evidence 6.56–6.67
- Information System Controls 6.23–6.27
- Reporting Standards for Performance Audits — Objectives, Scope, and Methodology 7.09–7.13

GAO Guidance

- Assessing the Reliability of Computer Processed Data, July 2009

12.2 REQUIREMENTS

GAGAS requires auditors to assess the appropriateness of computer-processed information when the information is significant to the objectives. This is required whether the information is provided to the auditors or auditors independently extract it. The audit team should not commit to making conclusions or recommendations based on the data unless the team is satisfied with the data reliability.

The assessment should be performed as early as possible in the engagement process and should not be considered a separate audit but rather a complement to other audit procedures established as part of the audit plan.

Auditors will document all work performed as part of the reliability assessment, as well as any limitations that may exist due to shortcomings in the data. The documentation should be: (1) clear about the steps the team took and the conclusions it reached, and (2) reviewed by staff with appropriate skills and, if needed, technical specialists.

⁸ In this chapter, the term computer processed information refers to computer processed data. Data is a unit of information with an identifiable nomenclature such as a social security number. It is sometimes referred to as a data variable or data field.

12.3 UNDERSTANDING RELIABILITY OF INFORMATION

Reliability of information consists of computer-processed data and includes: (1) data entered into a computer system, and (2) data resulting from computer processing. Computer-processed data can vary in form — from electronic files to tables in published reports.

To assess data reliability, the focus is on one test in the evidence standard — appropriate. The data's appropriateness should be tested relative to its intended purpose. In evaluating the appropriateness of the evidence, the auditor should carefully consider any reason to doubt its validity, completeness, accuracy, or consistency as follows:

- Valid – refers to whether the data actually represents what you think is being measured. It means what you select is what you intended to select.
- Complete – includes all of the data elements and records based on what should be included.
- Accurate – reflects the data entered at the source or, if available, in the source documents or other documentary evidence.
- Consistent – refers to the need to obtain and use data that are clear and well-defined enough to yield similar results in similar analyses. Data consistency ensures that the data being entered, processed, and reported is treated the same from period to period.

Reliability does not mean computer-processed data is error free. It means any errors found were within a tolerable range. In other words, the auditors assessed the associated risks and found the errors were not significant enough to cause a reasonable person, aware of the errors, to doubt a finding, conclusion, or recommendation based on the data.

In this context, risk refers to the likelihood that auditors will arrive at an incorrect or misleading conclusion in the audit report and that users of the report would then make incorrect decisions or unintentional conclusions based on the report.

12.4 WHEN IT IS NECESSARY TO ASSESS RELIABILITY OF INFORMATION

To decide if a data reliability assessment is necessary, auditors should consider certain conditions, such as the engagement type and the planned use of the data. Reliability should be assessed if the data to be analyzed are intended to support the engagement findings, conclusions, or recommendations.

Generally, reliability does not need to be assessed if the data are used: (1) only as background information, or (2) in documents without findings, conclusions, or recommendations. Background information generally sets the stage for reporting the results of an engagement or provides information that puts the results in proper context. Such information could be the size of the program or activity you

are reviewing. When you gather background or other data, ensure that they are from the best available source(s). When you present the data, cite the source(s) and if necessary, state that the data were not assessed.

For financial audits, which include financial statement and financial-related audits, you should consider the appropriateness of other procedures such as those discussed in the GAO/CIGIE Financial Audit Manual (FAM) and the Federal Information System Controls Audit Manual (FISCAM).

12.5 PURPOSE OF A RELIABILITY ASSESSMENT

The purpose of the reliability assessment is to determine whether you can use the data for the purpose intended. Auditors will conclude whether the data is either:

- sufficiently reliable
- not sufficiently reliable
- undetermined reliability

Sufficiently Reliable — Data is sufficiently reliable for engagement purposes when both the review of related information and testing provide assurance that: 1) the likelihood of significant errors or incompleteness is minimal, and 2) the use of the data would not lead to an incorrect or unintentional message. You could still have some problems or uncertainties about the data, but they would be minor given the research question (objective) and intended use of the data. When the results of the preliminary assessment indicate the data is sufficiently reliable, you may use the data without conducting additional work.

Not Sufficiently Reliable — Data is not sufficiently reliable for engagement purposes when the review of related information or testing indicates either of the following: 1) significant errors or incompleteness exist in some or all of the key data elements, and 2) using the data would probably lead to an incorrect or unintentional message.

Undetermined Reliability — Data's reliability is undetermined when one of the following occurs:

- Related information or testing raises questions about the data's reliability,
- Related information or testing provides too little information to judge reliability, or
- Time or resource constraints limit the extent of the examination of related information or testing.

12.6 CONDUCTING A RELIABILITY ASSESSMENT

Your judgment of the data's importance and the reliability of the source, as well as other engagement factors, can help you determine the extent of such an assessment. The extensiveness of the assessment is driven by the anticipated level of reliability risk. The reliability risk level is determined by considering: (1) the significance of the data to the final report, and (2) knowledge of the data and the system that processed them.

Reliability Risk = Planned Use + Data and System Knowledge

OA policy requires auditors to use the guidance set forth in this chapter to assess the reliability of computer processed data. The guidance set forth in this chapter is based on GAO guidance, which provides a framework for assessing the reliability of computer processed data. The framework provides flexibility by allowing the use of professional judgment to identify the appropriate mix of assessment steps and the level of testing required to fit the particular needs of the engagement. The framework consists of the following key steps:

- Determine Significance of the Data
- Review Existing Information
- Conduct Initial Testing
- Making the Preliminary Assessment
- Conducting Additional Work
- Making the Final Assessment
- Reporting the Results

The various steps are discussed in the subsequent paragraphs.

STEP 1: DETERMINE SIGNIFICANCE OF THE DATA

Auditors need to consider how they will use the data in the context of the final report and assess the risk related to the significance of the data. When assessing risk, consider the following risk conditions:

- The data could be used to influence legislation or policy with significant impact.
- The data could be used for significant decisions by individuals or organizations.
- The data will be the basis for numbers that are likely to be widely quoted.
- The engagement is concerned with a sensitive or controversial subject.
- The engagement has external stakeholders who have taken positions on the subject.
- The overall engagement risk is medium or high.
- The engagement has unique factors that strongly increase risk.

Normally, data are used as:

- the sole evidence supporting a finding,
- corroborative or supporting evidence, or
- background information.

If auditors plan to use data without corroborating evidence, establishing the reliability of the data is critical to the assignment objectives; therefore, the reliability risk is high.

When corroborating evidence is likely to exist and will independently support an audit's findings, conclusions, and recommendations, the reliability risk could be low to moderate depending on the strength and amount of other evidence. For assessing risk, auditors should judge the strength or weakness of corroborating evidence by considering the extent to which it:

- meets standards of evidence;
- provides crucial support;
- is drawn from different types of evidence (testimonial, documentary or, physical); and
- is independent of other sources.

Finally, the reliability risk is usually low when data are used in the report for background or informational purposes and are not vital to audit results.

STEP 2: REVIEW EXISTING INFORMATION

The next step is to determine what is already known about the data and the system that produced them. Favorable experience or knowledge reduces reliability risk, limits the review of system controls, and reduces data testing. Unfavorable experience or knowledge leads to increased doubts and requires greater assurance that data is accurate. In compiling information about the data and its system, the auditor should address: (1) the accuracy of the data entry and the data processing, (2) how data integrity is maintained, and (3) any known problems with the data or the system, to include the system's controls.

This may be in the form of internal and external reports, studies, or interviews with knowledgeable users of the data and the system. Sources for related information can be found within the agency under review, GAO, and other external sources or internal sources.

The following examples illustrate the above and the associated risk level:

- GAO used the same data to support a finding after adequately establishing their reliability to include completeness and accuracy of

- data. You confirmed the data had not changed. The risk of using the data in your report is low; therefore minimal testing would be required.
- OITA recently established the adequacy of system controls used to process data critical to the assignment objectives. You determine no significant changes had occurred in the system since the assessment. The reliability risk would be low and you could consider system controls good; therefore, minimal testing would be required.
 - You interviewed key users of the system and learned there were numerous errors in processing the data. The risk would be high; therefore, a higher level of testing would be required.

In the first example, the inspector general or other audit group studied the system controls or used the data. The results could establish reliability risk, but reliance on work performed by others would need to be met.

In the second example, while the Inspector General established the adequacy of system controls that are critical to your audit objective, additional work, such as review of selected workpapers and interviews of the other auditors, should be performed to ensure that the work performed met all applicable standards.

STEP 3: CONDUCT INITIAL TESTING

Initial testing should include steps to assess data completeness, data authenticity, data consistency, and the accuracy of computer processing, if not already determined from reviewing existing information. If the test results detect no errors or suggest an error rate that is acceptable for the data's planned use, the risk would be low and the data should be considered reliable. If the test results detect errors or suggest an error rate that is unacceptable for the data's planned use, risk would be moderate to high and the data should be considered unreliable.

Data Completeness — Perform tests of completeness by obtaining the universe of data and confirming all records and related data elements represent information needed for the assigned objective and period covered by the audit.

Data Authenticity — Perform tests of data authenticity by matching source records to computer-based records, and by matching the computer-based records to each source record. The result of matching these records should confirm that the data is both accurate and valid, and represents data that can be used in measurement of an activity. Also, it is important to confirm the data actually represents what you think is being measured. It means what you select is what you intended to select.

Data Consistency — Perform tests of data consistency by selecting a sufficient number of records, over several time periods, and determining whether the data elements for those selected records are filled with characters or numbers

according to system data descriptions. Data consistency ensures that the data being entered, processed, and reported is treated the same from period to period.

Accuracy of Computer Processing — Steps aimed at the accuracy of computer processing are designed to verify relevant records were completely processed and computer processing met the intended objectives. This can be accomplished by applying logical tests to electronic data files or hard copy reports.

For electronic data, use computer programs to test key data elements you plan to use for the engagement. Testing with computer programs, such as Excel, Access, and ACL, often takes less than a day, depending on the complexity of the file.

For hard copy or summarized data (whether provided by the audited entity or retrieved from the internet), you can ask for the electronic data file used to create it. If you are unable to obtain electronic data, use the hard copy or summarized data and, to the extent possible, manually apply the tests to key data elements or (if the report or summary is too voluminous) to a sample of them.

Whether you have an electronic file, a hard copy report, or summary, you can apply the same logic tests to the data. These can include testing for:

- missing data (either entire records or values of key data elements);
- the relationship of one data element to another;
- values outside of a designated range; and
- dates outside valid time frames or in an illogical progression.

STEP 4: MAKING THE PRELIMINARY ASSESSMENT

The preliminary assessment is the first decision point in the assessment process and is based on the results of the steps completed in paragraphs 12.7 through 12.9. The purpose of the preliminary assessment is to determine the sufficiency of the data and to determine if additional work is required. Keep in mind you are not attesting to the overall reliability of the data or database. You are only determining the reliability of the data as needed to support the findings, conclusions, or recommendations of the engagement.

The outcome of the preliminary assessment will vary based on the strength of corroborating evidence and the degree of risk involved. If the corroborating evidence is strong and the risk is low, the data is more likely to be considered sufficiently reliable for your intended purpose. If the corroborating evidence is weak and the risk is high, the data is more likely to be considered not sufficiently reliable for your intended purpose.

You will decide whether the data are:

- sufficiently reliable
- not sufficiently reliable
- undetermined reliability

Sufficiently Reliable — When the results of the preliminary assessment indicate the data is sufficiently reliable, you may use the data without conducting additional work.

Not Sufficiently Reliable — When the data is not sufficiently reliable, you should seek evidence from other sources, including: 1) alternative computerized data (the reliability of which you should also assess), or 2) original data in the form of surveys, case studies, and expert interviews.

If seeking evidence from other sources does not result in a source of sufficiently reliable data, you should: 1) inform the requestor that the needed data is unavailable, and 2) reach an agreement with management to:

- redefine the research question (objective) to eliminate the need to use the data,
- end the engagement, or
- use the data with appropriate disclaimers.

If you decide you must use data you determined is not sufficiently reliable, make the limitations of the data clear so incorrect or unintentional conclusions will not be drawn. Finally, if the data you assessed belongs to the auditee and has serious reliability weaknesses, you should include this finding in the report and recommend the agency take corrective action.

Undetermined Reliability — When the assessment indicates the data reliability is undetermined, you should conduct additional work. If conducting additional work is not feasible and you decide to use the data, make the limitations of the data clear so users of the report will not make incorrect or unintentional conclusions.

STEP 5: CONDUCTING ADDITIONAL WORK

If you determined through the preliminary assessment that data are of undetermined reliability, you should conduct additional work. A range of additional steps to further determine data reliability includes: tracing to and from source documents, using advanced electronic testing, and reviewing selected system controls. The mix depends on the weaknesses you identified in the preliminary assessment and the circumstances specific to your engagement, such as risk level and corroborating evidence, as well as other factors. Focus on those aspects of the data that pose the greatest potential risk for your engagement.

Tracing to and from Source Documents —Tracing a sample of data records to source documents helps you determine whether the computer data accurately and completely reflects these documents. In deciding what and how to trace, consider the relative risks to the engagement of overstating or understating the conclusions drawn from the data. For example, if you have concerns that some records may not have been entered into the computer system, and as a result, degree of compliance may be overstated, then you should consider tracing from source documents to the database. On the other hand, if you are more concerned that ineligible cases have been included in the database, and as a result the potential problems may be understated, you should consider tracing from the database back to source documents.

Tracing only a sample saves time and money. In order to be useful, the sample should be random and large enough to estimate the error rate within reasonable levels of precision (see Chapter 11, Audit Sampling). Tracing a sample will provide the error rate and the magnitude of errors for the sample, which can then be extrapolated to the entire data file. It is this error rate that helps you to determine the data reliability. Generally, every data file will have some degree of error and assessment that requires judging a combination of:

- Error rate – the frequency with which an error occurs. For example, a random sample shows 10 percent of records have the incorrect date. However, the dates may only be off by an average of two days and depending on what the data is to be used for, two days may not compromise reliability.
- Error magnitude – the size of the errors found can impact our judgment. For example, the value of a record was listed as \$10,000 rather than \$100,000. The valid range for this data element in the database is \$200 to \$1,000,000 and thus the data is within the accepted range of values and the error would not have been caught by a simple preliminary assessment test of value ranges. This type of error would likely only be revealed by tracing the data back to source documents.

Obviously, if source documents were destroyed, were never created, or are not centrally located, the actual tracing cannot be accomplished and missing data cannot be identified. However, one can still gain some insight into the process by interviewing data sources, owners, and users to obtain any related information or any corroborating evidence obtained earlier, or to review the adequacy of system controls (for information on system controls, refer to Reviewing Selected System Controls below).

Using Advanced Electronic Testing — Advanced electronic testing goes beyond the basic electronic testing you did in your preliminary assessment and requires the use of specialized software, such as ACL, Statistical Sampling for Social Sciences (SPSS), or Excel, to test for specific conditions within the data.

This type of testing can be particularly useful in determining the accuracy and completeness of processing by the application system that produced the data.

Consider using advanced electronic testing for:

- following up on troubling aspects of the data, such as extremely high values associated with a certain geographic location or with a certain set of records;
- testing relationships between data elements to look for unusual or abnormal correlations between data fields, such as skip patterns; and
- verifying that processing functions are accurate and complete, such as computer formulas used to generate specific data elements.

Reviewing Selected System Controls — Information system controls consist of those internal controls that are dependent on information system processing and include general and application controls. Your review of selected system controls can provide some assurance that the data are sufficiently reliable. Controls can reduce, to an acceptable level, the risk that a significant mistake could occur and remain undetected and uncorrected.

Using what you know about the system (from initial steps of the assessment), concentrate on evaluating the controls most directly affecting the data. These controls will usually include: (1) certain general controls, such as logical access and control of changes to the data, and (2) the application controls that help to ensure that data are accurate, complete, and authorized.

The steps for reviewing selected system controls are:

- Gain a detailed understanding of the system as it relates to the data, and
- Identify and assess the general and application controls that are critical to ensuring the reliability of the data required for the engagement.

General controls include the policies and procedures which apply to the overall computer operations in an organization. General controls are intended to help ensure proper operation of information systems, data integrity, and security.

Application controls include the policies and procedures which apply to individual application systems. Application controls are designed to help ensure the authority of data origination, accuracy and completeness of data input, integrity of processing, and verification and distribution of output. Examples of specific application controls that could be addressed include those for:

- Input
- Processing
- Output

Input controls provide reasonable assurance that data received for processing:

- were properly authorized, converted into machine form, and identified;
- had not been lost, suppressed, added, duplicated, or otherwise improperly changed; and
- had controls for rejection, correction, and resubmission of initially incorrect data.

Processing controls provide reasonable assurance that:

- all transactions are processed as authorized;
- no authorized transactions are omitted; and
- no unauthorized transactions are added.

Output controls assure:

- the accuracy and completeness of the processing result; and
- only authorized personnel receive the output.

STEP 6: MAKING THE FINAL ASSESSMENT

During the final assessment, you should consider the results of your previous work to determine if the data are sufficiently reliable, not sufficiently reliable, or still undetermined for your intended use. Again, remember you are not attesting to the overall reliability of the data or database. You are only determining the reliability of the data as needed to support the findings, conclusions, or recommendations of the engagement.

The outcome of the final assessment will vary based on the strength of corroborating evidence, the degree of risk, and the results of additional work. When the corroborating evidence is strong, the degree of risk is low, and the additional work answered issues identified in the preliminary assessment and did not raise any new issues, the data is more likely to be considered sufficiently reliable for your intended purpose. If the corroborating evidence is weak, the risk is high, and the additional work did not answer issues identified in the preliminary assessment or additional work raised more questions, the data is more likely to be considered not sufficiently reliable for your intended purpose.

12.7 DOCUMENTING THE RELIABILITY ASSESSMENT

Audit documentation must fully and clearly document all aspects of the reliability assessment as described previously in paragraph 12.6–12.12 and should include the level of details necessary to enable an experienced auditor, having no prior connection to the audit, to understand the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained, its source, and the

conclusions reached. In addition, this documentation must comply with audit documentation policies (refer to Chapter 5, Paragraph 5.6, Audit Documentation).

The documentation should include the following, as applicable:

- The Determination for Significance of the Data
- A Review of Existing Information
- Initial Testing Results
- The Preliminary Assessment
- Additional Work Results
- The Final Assessment
- A Report of the Results

12.8 REPORTING RESULTS

In the report, you should include a statement in the introduction to the audit report and in the scope section about conformance to GAGAS. These standards refer to how you did your work, not how reliable the data are. Therefore, your reporting conforms to GAGAS as long as you discuss what you did to assess the data, disclose any data concerns, and reach a judgment about the reliability of the data for use in the report.

The language will vary, depending on whether the data are sufficiently reliable, not sufficiently reliable, or of undetermined reliability.

Sufficiently Reliable — Present your basis for assessing the data as sufficiently reliable. This presentation should include: (1) noting what kind of assessment you relied on, (2) explaining the steps in the assessment, and (3) disclosing any data limitations. Such disclosure includes:

- telling why using the data would not lead to an incorrect or unintentional message,
- explaining how limitations could affect any expansion of the message, and
- pointing out that any data limitations are minor in the context of the engagement.

For example: "To achieve the assignment's objective(s), we extensively relied on computer-processed data contained in [cite data base used]. We assessed the reliability of this data by: (1) performing various testing of required data elements, (2) interviewing bank officials knowledgeable about the data, and (3) reviewing financial statements of the five banks for information about the data and the system that produced them, including relevant general and application controls. Based on these tests and assessments we conclude the data are sufficiently reliable to be used in meeting the assignment's objective(s)."

Not Sufficiently Reliable — Present your basis for assessing the data as not sufficiently reliable. This presentation should include what kind of assessment you relied on, with an explanation of the steps in the assessment. In this explanation: (1) describe the problems with the data, as well as why using the data would probably lead to an incorrect or unintentional message, and (2) state that the data problems are significant or potentially significant. In addition, if the report contains a conclusion or recommendation supported by evidence other than these data, state that fact. Finally, if the data you assessed are not sufficiently reliable, you should include this finding in the report and recommend that the audited entity take corrective action.

For example: “To achieve the assignment’s objective(s), we extensively relied on computer-processed data contained in [cite the data base used]. We assessed the reliability of this data by: (1) performing various testing of required data elements, (2) interviewing bank officials knowledgeable about the data, and (3) reviewing financial statements of the five banks for information about the data and the system that produced them, including relevant general and application controls. Our review of system controls and the results of data tests showed an error rate that casts doubt on the data’s validity. Based on these tests and assessments we conclude the data are not sufficiently reliable to be used in meeting the assignment’s objective(s). However, when these data are viewed in context with other corroborating evidence, as described earlier in the methodology section, we believe the opinions, conclusions, and recommendations in this report are valid and would not lead to an incorrect or unintentional message.”

Undetermined Reliability — Present your basis for assessing the reliability of the data as undetermined. Include such factors as short time frames, the deletion of original computer files, and the lack of access to needed documents. Explain the reasonableness of using the data; for example, these are the only available data on the subject, the data are widely used by outside experts or policymakers, or the data are supported by credible corroborating evidence. In addition, make the limitations of the data clear, so that incorrect or unintentional conclusions will not be drawn from the data. Finally, if the report contains a conclusion or recommendation supported by evidence other than these data, state that fact.

For Example: “To achieve the assignment’s objective(s), we extensively relied on computer-processed data contained in [cite the data base used]. We were unable to conduct tests on the data to determine the reliability because the original computer files were destroyed during hurricane Katrina. We did, however, interview bank officials knowledgeable about the data and reviewed financial statements of the five banks for information about the data and the system that produced them, including relevant general and application controls. Based on these tests and assessments, we believe the conclusions and recommendations are appropriate and would not lead to an incorrect or unintentional message.”

CHAPTER 13

USE OF CONTRACTORS

13.0 PURPOSE

This chapter establishes policies and responsibilities for using contractors to perform audits. It applies to all OIG audit work performed under contract with auditors, consultants, and specialists, including IPAs, information systems auditors or specialists, statisticians, and actuaries. This chapter is not intended to be a complete guide for awarding and administering federal contracts.

13.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Independence 3.02–3.30
- Professional Judgment 3.31–3.39
- Competence 3.40–3.49
- Quality Control and Assurance 3.50–3.63
- Audit Documentation 4.19–4.24
- Additional Government Auditing Standards 6.05–6.26
- Using the Work of Others 7.41–7.43
- Audit Documentation 7.77–7.84

Title 48: Federal Acquisition Regulation System – Subpart 3442.70 Contract Monitoring

Financial Audit Manual (FAM)

- Section 650 – Using Work of Others

13.2 POLICY

The OIG may use contractors to perform audits, attestation engagements, or nonaudit services. The OIG may also contract for specialist support from actuaries, appraisers, information systems auditors, or other disciplines.

When performing audit work under contract, IPAs and other contractors are required to comply with all applicable sections of GAGAS and AICPA standards. The OIG will assess and document the IPAs and contractors independence and qualifications of an auditor or specialist; the IPAs use of professional judgment, and the IPAs quality assurance process.

13.3 RESPONSIBILITIES

The IG and AIGA have responsibilities in overseeing the work of contractors:

OIG Manages task order work assignments and is responsible for all aspects of contract monitoring. Specifically, the OIG will monitor contractor performance to ensure the audit evidence gathered by the contractor is sufficient, reliable, and competent, and the audit is performed in accordance with Government Auditing Standards. The OIG also accepts, reviews, and approves contract deliverables such as plans, summaries, draft reports, and final reports.

The Inspector General approves audit projects and required resources for contractors.

13.4 ASSESSING CONTRACTOR QUALIFICATIONS AND INDEPENDENCE

Assessing Contractor Qualifications — Contractor staff must collectively possess the technical knowledge, skills, and experience necessary to perform the contract. Evidence of contractor qualifications includes:

- documentation of prior work experience and products;
- inquiries with contractor references concerning the quality of contractor work performed;
- professional certifications and CPE of contractor staff;
- external quality control reports for contract auditors or other quality reports for contract specialists; and
- review of the contractor's quality control system, including the contractor's policies and procedures, and the latest peer review results for IPAs.

Assessing qualifications is initially performed as part of the contractor selection process; however, qualifications must be reassessed when the course of the work changes, when new staff are assigned, or due to the passage of time.

Assessing Contractor Independence — Contractor staff must be independent (refer to Chapter 10, Independence and Ethics Principles).

Documentation — Documentation of contractor qualifications and independence must be included in the contract oversight.

13.5 APPROVING CONTRACTOR'S AUDIT PLAN

Planning for contractor performed work will be documented and approved in accordance with Chapter 4, Audit Planning.

13.6 MONITORING PLAN

A monitoring plan should be tailored to the contract's statement of work, milestones, and deliverables, and designed to achieve the level of assurance required or desired for the contractor's work.

Level of Assurance — The OIG should determine the level of assurance that is required or desired based the level of risk and responsibility the OIG is planning to take for the contractor's work. Some factors in determining the level of oversight depends on:

- whether or not reference to the contractor's work will be referenced in the OIG report;
- whether or not the contractor's audit will be transmitted providing negative assurance or full concurrence with the auditor's report; or
- if the OIG has knowledge of the contractor's performance from prior experience with the contractor.

The CIGIE/GAO Financial Audit Manual has a framework for developing a monitoring plan for financial statement audits. The OIG policy is to determine and document the level of review each year and to issue a transmittal letter using negative assurance. The IG will consult with AIGA to decide whether the risk and OIG's level of responsibility has changed sufficiently to increase or lower the level of review from the prior year.

Monitoring Plan — A written monitoring plan is developed based on the type of work performed by the contractor and the level of assurance determined above. The monitoring plan will include an assessment of contractor qualifications, independence, performance, and other monitoring matters.

13.7 REPORTING CONTRACTOR AUDIT RESULTS

When using the work of contractors and specialists, the type of reporting depends on the degree of responsibility the OIG accepts and the work performed by the contractor. Factors the OIG considers when deciding which type of reporting to use include: the amount of assurance the OIG wishes to provide, legal requirements, and cost benefit considerations. The type of reporting must

be approved by the AIGA while planning the project and generally be discussed with the contract auditors or specialists before work commences. The main types of reporting are:

No OIG Association with Contractor Report — In this situation, the contractor's report is provided directly to the auditee and significant users. The OIG may use this method when it merely procures the audit and is not acting as an "auditor." For example, if there is no legal requirement for a separate report by the OIG, the auditee does not need a separate report from the OIG, or a separate report would provide no additional information. When the OIG is required by law to perform the audit or evaluation, the OIG should not use this option since the OIG must be associated with the report.

OIG Transmittal Letter — There are two types of transmittal letters, one expressing no assurance and one expressing negative assurance on the contractor's work. For either type, the OIG is associated with the report. The transmittal letter should contain an explanation of the character of the OIG's work, if any, and the degree of responsibility the OIG is taking. Because the OIG did not perform the audit, the OIG should disclaim an opinion and should not express concurrence with the contractor's opinion. The OIG may use this approach when there is no legal requirement for the OIG to express an opinion or concurrence, but the OIG is required to, or wants to, issue a report or letter.

OIG Transmittal Letter Expressing No Assurance — For this letter, the OIG issues a transmittal letter without reviewing the contractor's documentation. In these situations, the transmittal letter should clearly state the limitations of the OIG's work. The OIG still has the responsibility to monitor the contract and to meet the requirements of the IG Act, as amended, and the Chief Financial Officers Act.

OIG Transmittal Letter Expressing Negative Assurance — This letter indicates the OIG reviewed the contractor's report and related documentation and inquired of its representatives, and further states the OIG found no instances where the contractor did not comply, in all material respects, with GAS.

OIG Issues a Report That Refers to Contractor's Report and Indicates a Division of Responsibility — To use this approach, the OIG has two decisions to make: (1) whether the OIG served as the principal "auditor," and (2) whether the OIG should refer to the work of the contractor. The OIG should exercise considerable judgment in making these decisions and should document the basis for the decision.

OIG Issues a Report That Expresses Concurrence with the Contractor's Report and Conclusions — Expressing concurrence means the OIG would have reached the same opinion or conclusion had the OIG done the audit.

Therefore, the contractor needs to do the same level of work as the OIG would have done for the OIG to take responsibility for the contractor's work.

OIG Issues a Report That Does Not Mention the Contractor's Work — In this situation, the OIG issues the report as if no contractor was involved. This means the OIG takes responsibility for the contractor's work.

CHAPTER 14

QUALITY CONTROL AND ASSURANCE

14.0 PURPOSE

This section documents quality control and assurance processes, which are designed to ensure audits and attestation engagements meet internal and external quality standards.

14.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

Policies and Procedures Handbook

14.2 BACKGROUND

Quality is an essential and distinctive attribute marked by a concentrated expenditure of involvement, concern, and commitment to excellence that distinguishes it from inferior products or services. To maintain and continue to build quality requires total commitment on the part of every member of the team and the organization. Quality ensures our reputation by producing consistent, superior work.

Quality control is the system used by to fulfill requirements for achieving quality. It involves verifying and maintaining a desired level of quality in a product or process by careful planning, management of resources, timely inspection, and implementation of corrective actions. Effective quality control identifies and addresses those factors that could jeopardize the quality of an audit and establishes processes and procedures to correct problems before they adversely impact results.

Quality assurance includes the activities implemented within the quality control system that provide confidence a product or service will fulfill requirements. Whereas quality control emphasizes testing and blocking the release of defective products, quality assurance is about improving and stabilizing production and associated processes to avoid or minimize issues that led to the defects in the first place.

14.3 POLICY

All personnel should understand and use applicable standards and procedures related to quality by: communicating, identifying, and evaluating possible threats to independence and objectivity, and taking appropriate action to eliminate or reduce those threats; adhering to relevant legal requirements; and complying with relevant ethical requirements when discharging professional responsibilities.

14.4 RESPONSIBILITIES

Auditors develop appropriate documentation of the work performed and apply audit techniques to accomplish audit objectives. Auditors exercise independent judgment in evaluating management processes and presenting ideas, facts, conclusions, and recommendations clearly, concisely, and logically. To support their work, auditors ensure that sufficient supporting documentation is maintained and referenced to reports of audit results. Auditors are responsible for knowing and applying standards.

IG Officials communicate with the auditors so that they sufficiently understand the objectives of their work and apply standards. They plan and supervise audit and attestation engagements. They review the work performed, the significant judgments made, and the resulting audit documentation and reports.

- assigned staff meets the independence, legal, and ethical requirements;
- audit and attestation engagements are well planned, conducted, and documented to provide OIG with reasonable assurance that audits and attestation engagements are performed and reports are issued in accordance with standards;
- statements in the report are properly referenced and supported by audit documentation; and
- issues are resolved and appropriate actions taken such as correcting references and facts in the report.

IG and AIGA are responsible for providing direction and ensuring audit and attestation engagements are well planned, conducted, and documented to provide OIG with reasonable assurance that audits and attestation engagements are performed and reports are issued in accordance with standards. .

Quality Control Reviews (QCR) assess work completed on audits and attestation engagements to provide management with reasonable assurance that policies and procedures related to quality control are suitably designed and operating effectively. The AIGA identifies the audits subject to a QCR.

Internal Quality Control Reviews (IQCR) determine whether an audit group complies with Government Auditing Standards, policies and procedures, and other applicable guidance, standards, and best practices. QA reviews a sample of each audit project on a 3-year cycle. QA selects audits from the most recent semiannual reporting cycle to review. IQCRs analyze the review and coaching notes generated from the QCRs to identify possible repetitive or notable matters that warrant additional review. The IQCR follows up on any applicable issues identified in the most recent external peer review or any special project QCRs. The final report, is submitted to the IG.

Special Project Quality Control Reviews (SPQCR) provide assessments of specific audit areas required by GAGAS, such as audit documentation, planning, or reporting. The AIGA may request reviews of specific audit areas to identify any systemic issues requiring improvement throughout OIG, such as areas of non-compliance with applicable standards or best practices that could be implemented OIG-wide.

14.7 ANNUAL ANALYSIS OF MONITORING PROCEDURES

At least annually, AIGA will communicate to the IG deficiencies noted as a result of the monitoring process and recommend appropriate remedial action. AIGA communicates these results in a written report that includes:

- a description of the monitoring procedures performed;
- the conclusions drawn from the monitoring procedures; and
- when relevant, a description of the systemic, repetitive, or other
- significant deficiencies, and the actions needed or taken to resolve those deficiencies.

14.8 FOLLOW UP ON PREVIOUS FINDINGS

IG evaluates whether appropriate corrective action has taken place to address findings and recommendations from previous monitoring and peer reviews. IG uses this information as part of the assessment of risk associated with the design and implementation of a quality control system and in determining the nature, timing, and extent of monitoring procedures.

CHAPTER 15

AUDIT RESOLUTION AND CLOSURE

15.0 PURPOSE

This chapter establishes policies and procedures for resolving and closing OIG recommendations. It applies to all reports and all recommendations issued by OIG.

15.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Appendix I, Management's Role, A1.08 f

OMB Circular A-50, Audit Follow-up

Inspector General Act OF 1978 (P.L. 95-452; USC Appendix 3), as amended

15.2 POLICY

OIG monitors the resolution of audit findings and recommendations to ensure that departmental agencies comply with congressional and OMB time limits, meet requirements for establishing and collecting claims, and promptly implement corrective actions.

15.3 BACKGROUND

Audit follow up is an integral part of good management, and is a shared responsibility of agency management and auditors to ensure corrective actions are taken for OIG recommendations.

Resolution — This is the point OIG and agency management agree on corrective actions to reported findings and recommendations, or in the event of disagreement, the point the audit follow-up official determines the matter resolved.

Closure — Recommendations will be closed when the agency provides OIG with adequate evidence to demonstrate corrective actions have been completed, or when the agency and OIG agrees that proposed corrective actions could not or should not be implemented.

15.4 RESPONSIBILITIES

IG and AIGA are responsible for all open audit reports. Specifically, they are responsible for:

- Working with ARC agency officials to facilitate timely issuance of management decisions and following up to obtain management decisions not received within 60 days of report issuance.
- Reviewing and determining if agency management decisions, including proposed corrective actions, are adequate to resolve the recommendations.
- Notifying agency officials when the OIG determines that management decisions are not adequate to resolve the recommendations.
- Negotiating differences with agency officials concerning audit resolution and referring unresolved differences to the IG.
- Maintaining in documentation of activities to resolve and close recommendations, including documentation provided by agency management as evidence that proposed corrective actions have been completed.
- Ensuring reports are updated to reflect efforts being made to achieve resolution.

The IG is responsible for the following:

- Settling any disagreements with Agency Officials and referring unresolved differences to the ARC Audit Follow-up Officials.
- Notifying the ARC Audit Follow-up Official that the management decision is overdue (has not been received within 120 days of the issuance of the final report) and requesting that the Audit Follow-up Official take appropriate action to obtain the overdue management decision.

15.5 RESOLUTION OF AUDIT RECOMMENDATIONS

Non-Monetary Recommendations — Recommendations are considered resolved when the OIG and agency management or contract/grant officers agree on corrective actions to the recommendations or agree that the recommendations will not be implemented.

When the agency is in agreement with the OIG's recommendations or the OIG agrees with alternative action(s) proposed by the agency, the Audit Director issuing the report ensures that the agency identifies the planned corrective actions, the officials responsible for such actions, and milestones for major steps and full implementation. When an agency disagrees with the OIG recommendation(s), the agency's management decision should fully explain the reason(s) for the disagreement. When disagreement is based on interpretation of

law, regulation, or the authority of officials to take or not take action, the agency's management decision should include the legal basis.

Monetary Recommendations (questioned costs) — Recommendations are considered resolved when the ARC contracting/grant officer issues a final decision/determination disallowing the costs and accounts receivables are established for collection of the disallowed costs, or when the ARC contracting/grant officer determines that the questioned/unsupported questioned costs are allowed.

Recommendations That Funds Put To Better Use — Recommendations are considered resolved when the OIG and agency management officials agree on a corrective action plan(s) to be taken to implement the recommendations or agree that the recommendations will not be implemented.

When the agency concurs with the OIG's recommendation, the agency's management decision should identify the planned corrective actions, the officials responsible for carrying out the actions, and milestones for the major steps and full implementation.

Recommendations With Other Monetary Impact — Recommendations are considered resolved when the OIG and agency management or contract/grant officers agree on a corrective action plan to implement the recommendations, or agree that the recommendations will not be implemented.

15.6 PROCEDURES FOR RESOLVING RECOMMENDATIONS

Generally, the memorandum transmitting the final report to the agency will request that the agency provide a corrective action plan 60 calendar days from the issuance date of the final report. This plan should identify the officials responsible for such actions and the milestones for major steps and full implementation. For grant or contract audits, the transmittal memo will request the grant or contract officer to provide a copy of the final determination within 170 days.

15.7 CLOSING AUDIT RECOMMENDATIONS

The acceptance of recommendations does not ensure results; effective implementation does. Therefore, OA has a system to promote continued attention to audit recommendations until results are achieved.

Closed - Pending Verification – In certain cases, OIG may elect to close recommendations based on agency management representation subject to later verification. This is primarily used for audits that have recommendations which require extended time to obtain and assess the evidence needed for verification. In such cases, waiting to close the recommendation after verification is complete may not fairly represent the agency's progress in taking corrective action. Once the action is verified as complete, the status of the recommendation is changed to closed. Whenever it is determined that the action has not been completed, the status reverts to unresolved.

Criteria for Closing Non-Monetary Audit Recommendations — Closure occurs when the previously accepted corrective action has been completed by the agency as evidenced by documentation or when it has been determined that the proposed action could not or should not be implemented.

Criteria for Closing Monetary Audit Recommendations — Closure occurs when the previously accepted corrective action has been completed by the agency as evidenced by documentation, when funds have been transferred/reprogrammed, funds have been returned to the Treasury, or for questioned cost when the total amount of the debt has been satisfied, either by collection or write-off or it has been determined that the proposed action could not or should not be implemented.

15.8 PROCEDURES FOR CLOSING RECOMMENDATIONS

Generally the following activities are required for closure:

AIGA will follow up on the accepted corrective action plan to obtain evidence of implementation and determine whether recommendations should be closed.

Based on debt collection information received from agencies, OIG will retain information on disallowed costs collected and written off.

15.9 PROCEDURES FOR APPEALS

Grantees and contractors have the right to appeal ARC Grant or Contracting Officer's Final Determination decisions.

CHAPTER 16

CONTINUING PROFESSIONAL EDUCATION (CPE)

16.0 PURPOSE

This chapter establishes policies and procedures to ensure that all OIG employees⁹ assigned to perform work under GAGAS maintain their professional competence through continuing professional education.

16.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Continuing Professional Education 3.76–3.81

GAO-05-568G, Guidance on GAGAS Requirements for Continuing Professional Education, April 2005

National Association of State Boards of Accountancy (NASBA) Statement on Standards for Continuing Professional Education Programs, January 2012

16.2 BACKGROUND

OIG is committed to the professional development of all staff. All employees are encouraged to work with their supervisors to plan for their career development and should annually prepare Employee Development Plans (EDPs). Auditors and internal specialists assigned to perform work under GAGAS must meet continuing professional education required by GAGAS. It is expected there will be overlap between an employees' career development plans and plans to meet CPE requirements. However, these two are distinct activities. This chapter addresses GAGAS CPE requirements.

16.3 POLICY

OIG requires that all staff conducting audits and attestation engagements meet GAGAS.

16.4 RESPONSIBILITIES

Auditors and Internal Specialists are primarily responsible for meeting CPE requirements. Specifically, auditors and internal specialists should:

⁹ Employees include all staff performing significant work under GAGAS including auditors, analysts, evaluators, inspectors, statisticians, and specialists.

- seek opportunities and request approval for CPE training;
- discuss plans for meeting CPE requirements with supervisor;
- register for approved training with training providers;
- complete CPE programs and activities successfully;
- provide documentation of the CPE hours completed with training providers;
- monitor their own progress toward meeting the CPE requirements; and

AIGA will monitor compliance with minimum CPE requirements for each auditor for whom they have administrative responsibility.

The AIGA will approve all training.

16.5 CPE REQUIREMENTS

Staff conducting audits and attestation engagements should collectively have:

(1) knowledge of the methods and techniques applicable to government auditing and the education, skills, and experience to apply such knowledge to the audit being conducted; (2) knowledge of government organizations, programs, activities, and functions; (3) skills to communicate clearly and effectively, both orally and in writing; and (4) skills appropriate for the audit work being conducted.

Each employee responsible for planning, directing, conducting, or reporting on audits or attestation engagements is required to maintain professional competence through CPE. Therefore, each auditor should complete, every 2 years, at least 80 hours of CPE that directly enhances the auditor's professional proficiency to perform audits or attestation engagements.

- At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.
- At least 20 of the 80 hours should be completed in each year of the 2 year period.

Internal specialists who perform work under GAGAS, including planning, directing, performing audit procedures, or reporting on an audit or attestation engagement, should comply with GAGAS CPE requirements. For these individuals, training in their area of specialization satisfies the requirement for 24 hours of CPE related to government auditing, government environment, or the specific environment of the audited entity.

CPE Period — The CPE period is based on 2 calendar years and begins on January 1st of each odd-numbered year. For example, January 1, 2011, to December 31, 2012, is one CPE period.

Exemptions — Individuals may be exempt from all or part of the CPE requirements based on the nature and level of their involvement in GAGAS audits.

- Auditors who are only involved in field work, but not involved in planning, directing, or reporting on the audit, and who charge less than 20 percent of their time annually to GAGAS audits, are only required to meet the requirement for 24 hours of CPE related to government auditing, the government environment, or specific or unique environments in which the audit entity operates.
- Internal specialists consulting on GAGAS assignments who are not involved in the planning, directing, performing, or reporting of the assignment should be qualified and maintain professional competence in their area of specialization, but are not required to meet GAGAS CPE requirements.
- External specialists assisting in performing GAGAS assignments should be qualified and maintain professional competence in their area of specialization, but are not required to meet GAGAS CPE requirements.
- Auditors performing nonaudit activities within the audit organization, such as individuals assigned to staff positions in budgeting, policy, personnel, and training, are not required to complete any CPE.
- Auditors performing services not considered to be audits, such as gathering information about a program without analyses, conclusions, and recommendations, are not required to complete any CPE.
- Students employed on a temporary basis for a limited time or enrolled in a formal program sponsored by a college or university for a specific period of employment are not required to complete any CPE.

Exceptions — The AIGA may grant individual exceptions from a portion of the CPE requirement in the event of extended absences or other extenuating circumstances, such as:

- Ill health
- Maternity or paternity leave
- Extended family leave
- Sabbaticals
- Leave without pay
- absences
- Military service
- Disasters
- Foreign residency

Exceptions will not be granted for reasons such as workload, budget, or travel constraints.

In addition, new audit staff who are assigned to a GAGAS audit or attestation engagement after the beginning of a 2-year CPE period should complete a prorated number of CPE hours (see calculation requirements below).

16.6 CALCULATING CPE

The number of CPE hours earned is based on the actual number of hours audit staff participated in qualifying programs or activities. OIG will calculate CPE per GAO guidance.

- One CPE hour may be granted for each 50 minutes of participation in qualifying programs and activities.
- One-half CPE hour increments (equal to 25 minutes) may also be granted after the first CPE hour has been earned.
- At conferences and conventions where individual presentations are other than 50 minutes, the sum of the presentations should be considered as one total program. For example, two 90-minute, two 50-minute, and three 40-minute presentations equal 400 minutes or 8 CPE hours $((90 + 90 + 50 + 50 + 40 + 40 + 40) \div 50 = 8)$.
- When the total minutes of a presentation are more than 50, but not equally divisible by 50, the CPE hours should be rounded down to the nearest one-half hour. For example, if the presentation was 70 minutes, the CPE hours would be 1 $(70 \div 50 = 1.4 \text{ hours; rounded down} = 1)$.

Prorated calculation — The prorated number of hours is based on the number of full 6-month intervals remaining in the CPE period. Each CPE period contains four 6-month intervals:

(1) January–June/Year 1, (2) July–December/Year 1, (3) January–June/Year 2, and (4) July–December/Year 2.

Example: A new auditor is assigned to an audit in May 2009 (CPE period is January 1, 2009, through December 31, 2010). The prorated CPE requirement is calculated as follows:

- Remembering number of 6 month intervals in the CPE period = 3.
- Total number of 6-month intervals in the full 2-year period = 4
- Newly assigned auditor's CPE requirement: $(3 \div 4) \times 80 \text{ hours} = 60 \text{ hours}$.

The number of hours in government environment and government auditing required is calculated in a similar manner (for example, $(3 \div 4) \times 24 = 18 \text{ hours}$).

16.7 DEFICIENCY MAKE-UP

All audit staff are to complete CPE requirements within the designated 2-year period. However, as noted previously, the AIGA may approve exceptions.

If an exception is approved, the audit staff will have 2 months immediately following the 2-year period to make up the deficiency. Any CPE hours completed toward a deficiency in one period will be documented in the CPE records and may not be counted toward the requirements for the next 2-year period.

Auditors who still have not satisfied the CPE requirements after the 2-month grace period will not be assigned to GAGAS audits until those requirements are satisfied.

16.8 PROGRAMS AND ACTIVITIES THAT QUALIFY FOR CPE

Programs and activities qualify for CPE hours provided they address acceptable subjects and topics as defined in Section 16.9, Subjects and Topics that Qualify for CPE.

There are three categories of eligible programs and activities: (1) group programs, (2) individual study programs, and (3) other professional activities.

Group Programs:

- Internal training programs, such as courses, seminars, and workshops;
- Employee meetings when a structured educational program is presented, such as managers briefing employees on an auditing standard and demonstrating its applicability to their work;
- Accredited university and college courses (credit and noncredit); Education and development programs presented at conferences, conventions, meetings, seminars, and workshops of professional organizations;
- External training programs presented by other audit organizations, educational organizations, foundations, and associations;
- Web-based seminars and structured programs of study; and
- Audio conferences.

Individual Study Programs:

Correspondence courses, self-study guides, and workbooks; and Courses given through multimedia sources, including video, computer, and the Internet.

Other Professional Activities:

- Serving as a speaker, instructor, or discussion leader at group programs that qualify for CPE hours;
- Developing courses or the course materials for programs that qualify for CPE hours; and
- Publishing articles and books or developing CPE courses on subjects and topics that qualify for CPE hours and that contribute directly to the author's professional proficiency.

16.9 SUBJECTS AND TOPICS THAT QUALIFY FOR CPE

To be acceptable, CPE must be on subjects and topics that maintain or enhance an employee's knowledge and skills in areas related to their work.

To be acceptable, CPE must be on subjects and topics that maintain or enhance an employee's knowledge and skills in areas related to their work.

Examples of acceptable subjects include, but are not limited to, the following:

Analytical procedures	Accounting principles and standards
Audit methodologies	Assessment of internal controls
Audit risk and materiality	Audit standards
Budgeting	Compliance with laws and regulations
Computer science	Contracting and procurement
Cost accounting	Data analysis
Financial management	Financial reporting
Interviewing techniques	Oral and written communications
Report writing	Pension accounting
Sampling	Program evaluation
Public administration	Public finance
Quality control	Principles of management and supervision

Examples that meet the specific requirement of 24 hours of government-related CPE include, but are not limited to, the following:

Government auditing —

- Government Auditing Standards promulgated by the Comptroller General;
- Developing and using electronic workpapers;
- AICPA's statements on auditing standards for field work and reporting; and
- Special government audit requirements established by law or regulation, such as the Single Audit Act of 1984, as amended.

Government environment —

- Government accounting principles;
- Budgeting;
- Procurement and contracting in government;
- Legislative policies and procedures;
- Effects of current economic conditions on government operations;
- Relevant laws and regulations; and
- Government program and service performance measurement and reporting.

Special or unique environment —

- Economic, operating, or regulatory developments; and
- Relevant accounting principles; and laws and regulations related to specialized areas in which the audited entity operates.

16.10 INELIGIBLE SUBJECTS AND TOPICS

Examples of programs and activities or subjects and topics that do not qualify for CPE hours include, but are not limited to, the following:

Examples of programs and activities or subjects and topics that do not qualify for CPE hours include, but are not limited to, the following:

- On-the-job training;
- Basic or elementary courses in subjects and topics in which the auditor already has the necessary knowledge and skills;
- Programs that are not designed to maintain or enhance auditors' professional proficiency, but are designed for the general public, such as resume writing, improving parent-child relations, personal investments and money management, and retirement planning;
- Federal, state, and local income taxes;
- Sales-oriented programs that demonstrate office equipment;
- Programs restricted to the audit organization's administrative operations
- Informal discussions of current events in the audit/evaluation profession;
- Business sessions at professional organization conferences, conventions, and meetings;
- Participation as a member of a committee of a professional organization; Preparation and presentation time for repeated presentations within the 2-year period; and
- External quality control reviews.

16.11 PLANNING CPE

Planning for CPE requirements can be accomplished when developing the EDP. The EDP is a tool that facilitates communication between employees and their supervisor.

CHAPTER 17 STAFFING

17.0 PURPOSE

This chapter establishes policies and procedures for staff assignments, time and attendance, travel, and performance management.

17.1 GOVERNING CRITERIA

Generally Accepted Government Auditing Standards, December 2011

- Technical Knowledge and Competence 3.72-3.75

17.2 BACKGROUND

Generally accepted government auditing standards require audit staff to collectively possess adequate professional competence for the tasks required. To meet this requirement, management must assess the technical knowledge and competencies required for each audit project and ensure that audit teams have the collective skills necessary to fulfill those requirements.

17.3 POLICY

The IG and AIGA identify staffing needs and recruit primarily by announcements. Including notifying other OIGs of a vacancy. ARC Human Resources assists with the recruiting process. Job and annual appraisals are prepared by the AIGA.

17.4 STAFF ASSIGNMENTS

Assignments by the IG or AIGA are based on factors related to project needs, staff knowledge, unique skills, developmental needs, and preferences. These factors may include, but are not limited to:

- Staff availability;
- Work experiences;
- Unique skills, certifications, or licenses, such as computer languages, Foreign languages, CPA, CFE, etc;
- Specific employee developmental needs, such as communication skills, AIC, report writing;
- Staff requests for specific functional areas, such as MSHA, OWCP, IT, or financial statements; and

CHAPTER 17- Staffing

- Physical location of staff relative to expected field work locations.

17.5 The IG and/or AIGA establish the qualifications needed for the majority of audit work. For example;

- Financial Audits – Core Competency – Accounting
- Performance Audits – Broader Competencies including auditing, evaluation, oral and written communications, interviewing, critical thinking, etc.
- Attestation – Combination of the above

The IG and/or AIGA will establish the educational requirements for available positions.

17.6 The IG and/or AIGA have responsibilities for assuring the competency of staff and assuring staff collectively possess adequate professional competence to address objectives in accordance with GAGAS. Review of auditor understanding of GAGAS, training, and audit work papers and reports are IG and AIGA actions to address professional competence.

17.7 IG and/or AIGA will review backgrounds, experience and recommendations with respect to all staff, including specialist to the degree needed.

17.8 The IG or AIGA will perform annual appraisals and job appraisals to the degree determined as needed.

17.9 The IG or AIGA are responsible for implementation of Federal Travel Policies

17.10 The extent of necessary training is determined by the IG and AIGA.