



OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

M E M O R A N D U M

November 28, 2017

TO: Kathy A. Buller, Inspector General, Peace Corps Office of Inspector General

FROM: 
Carl W. Hoecker, Inspector General

SUBJECT: *External Peer Review System Review Report on the Peace Corps Office of Inspector General Audit Organization*

Attached is the System Review Report for the external peer review of the Peace Corps Office of Inspector General audit organization, conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. On October 30, 2017, we provided you with a draft of the report for review and comment. In your response, received on November 16, 2017, you concurred with our recommendations. We have included your response as Enclosure 3 in the final System Review Report.

We appreciate the courtesies and cooperation extended to us during the review. If you have questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

cc: Joaquin Ferrao, Deputy Inspector General/Legal Counsel, Peace Corps Office of Inspector General
Judy Leonhardt, Assistant Inspector General for Audit, Peace Corps Office of Inspector General



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SYSTEM REVIEW REPORT

November 28, 2017

Ms. Kathy A. Buller
Inspector General
Peace Corps
Office of Inspector General
1111 20th Street NW
Washington, D.C. 20526

Dear Ms. Buller,

We have reviewed the system of quality control for the audit organization of the Peace Corps Office of Inspector General (OIG) in effect for the year ended September 30, 2016. A system of quality control encompasses Peace Corps OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards* (GAS).¹ GAS describes the elements of quality control. Peace Corps OIG is responsible for establishing and maintaining a system of quality control designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and Peace Corps OIG's compliance with that system based on our review.

We conducted our review in accordance with GAS and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*.² During our review, we interviewed Peace Corps OIG personnel and obtained an understanding of the nature of Peace Corps OIG's audit organization, and the design of Peace Corps OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected two of five issued audits and one review, collectively referred to as audits, and administrative files to test for conformity with professional standards and compliance with Peace Corps OIG's system of quality control. The audits selected represented a reasonable cross-section of Peace Corps OIG's audit organization, with emphasis on higher-risk audits. Before concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with Peace Corps OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for Peace Corps OIG's audit organization. In addition, we tested compliance with Peace Corps OIG's quality control policies and procedures to the extent we considered appropriate. These

¹ U.S. Government Accountability Office, *Government Auditing Standards* (GAO-12-331G, December 2011).

² September 2014.

tests covered the application of Peace Corps OIG's policies and procedures on selected audits. We based our review on selected tests; therefore, our tests would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

We noted the following deficiencies during our review.

1. Peace Corps OIG did not adequately monitor or comply with its quality control program within its audit organization, including monitoring of quality to address repetitive issues such as untimely supervisory review of audit documentation.
2. For both of the performance audits reviewed, Peace Corps OIG inaccurately reported information and did not include sufficient information in its reports.

Enclosure 1 provides a detailed discussion of these deficiencies. Enclosure 2 identifies the Peace Corps OIG office we visited and the audits we reviewed. Enclosure 3 provides your response to the draft System Review Report.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of the Peace Corps OIG in effect for the year ended September 30, 2016, has been suitably designed and complied with to provide Peace Corps OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. Peace Corps OIG has received an external peer review rating of *pass with deficiencies*. As is customary, we have issued a letter dated November 28, 2017, that describes findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with GAS, we applied certain limited procedures in accordance with guidance established by the CIGIE related to Peace Corps OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits performed by IPAs is not an audit and, therefore, is not subject to the requirements of GAS. The purpose of our limited procedures was to determine whether Peace Corps OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on Peace Corps OIG's monitoring of work performed by IPAs. We identified no matters pertaining to Peace Corps OIG's monitoring of IPAs.



Carl W. Hoecker
Inspector General

Enclosures

Enclosure 1

We reviewed Peace Corps Office of Inspector General's (OIG) system of quality control for its audit organization and two of five judgmentally selected audits completed by Peace Corps OIG between October 1, 2015, and September 30, 2016. These audits included the audit of the Peace Corps' Healthcare Benefits Administration Contract³ (Healthcare Audit) and the Peace Corps Indonesia Post Audit⁴ (Indonesia Post Audit). We noted the deficiencies described below.

Deficiency 1: Inadequate Monitoring of and Noncompliance with Quality Control Program

Peace Corps OIG Did Not Adequately Monitor or Comply with Its Quality Control Program Within Its Audit Organization. We identified weaknesses in Peace Corps OIG's audit quality control program, including monitoring of quality to address repetitive issues. *Government Auditing Standards* (GAS) 3.93 states, "Audit organizations should establish policies and procedures for monitoring of quality in the audit organization." GAS 3.95 further states, "The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action." In addition to GAS requirements, Chapter 2, Section 3, of Peace Corps OIG's Audit Manual (Audit Manual) states that the OIG will maintain an ongoing quality control program to ensure compliance with GAS and the specific policies and procedures issued by the OIG. Specifically, the Audit Manual states that component parts of the quality control program are: documented audit operating policies and procedures, supervision of audit staff, internal reference review, and external quality control reviews. The Audit Manual also requires that Peace Corps OIG auditors use certain checklists to help ensure each audit report complies with the organization's quality control program.

During our review, we found that Peace Corps OIG did not complete an annual quality assurance review of its audit organization for fiscal year (FY) 2016. Furthermore, the quality assurance reviews for FYs 2013, 2014, and 2015 identified repeated noncompliance with aspects of GAS and/or Peace Corps OIG's quality control procedures and standards but did not result in recommendations for corrective action. Specifically, the FYs 2013, 2014, and 2015 quality assurance review documents included the following information about untimely supervisory review⁵ of audit documentation:

³ Peace Corps Office of Inspector General, *Audit of Peace Corps' Healthcare Benefits Administration Contract* (IG-16-02-A, January 2016).

⁴ Peace Corps Office of Inspector General, *Audit of Peace Corps/Indonesia* (IG-16-03-A, June 2016).

⁵ GAS 6.83c requires auditors to document "supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report."

- Six TeamMate “PRGs,” or programs,⁶ in one of three audits assessed for FY 2013 had “red flags” (that is, they were edited after review and, therefore, may not have been fully reviewed before report issuance).
- One workpaper in one of three audits assessed for FY 2014 “need[ed] supervisory signoff.”
- “Several [workpapers were] not signed” in two of three audits assessed for FY 2015.

The quality assurance reviews for FYs 2014 and 2015 also noted that auditors did not always complete or document in the workpaper files required report checklists. This was noted as an issue in one of three audits assessed for FY 2014 and in two of three audits assessed for FY 2015.⁷ Despite these repetitive issues, none of the quality assurance review documents for the 3 years we reviewed included recommendations for corrective action.

In addition, during our review of the Healthcare Audit and Indonesia Post Audit, we observed findings (that is, instances of noncompliance with GAS and/or the audit organization’s policy) similar to those from the 2013 peer review of Peace Corps OIG’s audit organization.⁸ Specifically, we found that auditors did not always clearly document related purpose, source, scope, and conclusion information or references to supporting documents in workpapers for both audits we reviewed (this issue relates to Finding 2 from the 2013 peer review Letter of Comment and is discussed in greater detail in Finding 2 of our Letter of Comment). Also, similar to Peace Corps OIG’s annual quality assurance reviews for FYs 2013, 2014, and 2015, we determined that, in both audits we reviewed, supervisory review was not always timely (this issue relates to Finding 3 from the 2013 peer review Letter of Comment and is discussed in greater detail on the next page of this System Review Report).⁹ Finally, we found that, at the

⁶ Peace Corps OIG uses TeamMate, an audit management software system that enables auditors and other professionals to work in a nearly paperless audit environment, to create and maintain audit workpaper files. Peace Corps OIG’s TeamMate Procedure Guide defines a “Program (Work Program)” as a set of audit procedures or test steps and explains that an example of a reference to a program is “A.1.PR.G.”

⁷ We also found that auditors did not complete a required checklist for one of the audits we reviewed (the Indonesia Post Audit).

⁸ The National Endowment for the Humanities (NEH) OIG completed the peer review of Peace Corps OIG’s audit organization for the period ended September 30, 2013, and issued its report on March 27, 2014. Peace Corps OIG received a rating of *pass*.

⁹ Although the 2013 peer review Letter of Comment warned of practices that, in the NEH OIG’s opinion, delayed or complicated the supervisory review process (including timely, detailed review of individual workpapers), NEH OIG’s Letter of Comment did not assert that Peace Corps OIG failed to perform or document supervisory review of workpapers before issuing audit reports. However, we noted that the 2013 peer review included the audit of The Peace Corps’ Management of the 50th Anniversary Program (report number IG-13-01-A), which was one of the three audits Peace Corps OIG also reviewed as part of its FY 2013 annual quality assurance review. In fact, IG-13-01-A was the audit that included six TeamMate “PRGs,” or programs, that were edited after review and, therefore, may not have been fully reviewed before report issuance. As stated above, Peace Corps OIG also noted deficiencies related to untimely supervisory review in its FY 2014 and FY 2015 annual quality assurance reviews, and we noted similar deficiencies in our review of two audits completed in FY 2016. Because Peace Corps OIG’s quality assurance review documents for FYs 2013, 2014, and 2015 did not include a detailed description or analysis of the issues identified and because the documents were undated, we could not determine whether possible changes in conditions occurred over time or whether degrees of compliance with policies or procedures deteriorated (if at all) before, during, or since the 2013 peer review or the annual quality assurance reviews themselves.

time of our review, the Indonesia Post Audit workpaper file did not include the final audit report (this issue is a repeat of Finding 4 from the 2013 peer review Letter of Comment).

Repeated or similar instances of noncompliance with GAS and/or Peace Corps OIG quality control procedures and standards indicate that Peace Corps OIG has not sufficiently addressed such deficiencies and calls into question whether the audit organization has established and maintained a system of quality control designed to provide reasonable assurance of compliance. Furthermore, limited or inadequate monitoring of quality may prevent management from having reasonable assurance that the policies and procedures related to the audit organization's system of quality control are suitably designed and operating effectively.

Peace Corps OIG Did Not Always Perform Timely Supervisory Review of Workpapers Supporting Final Audit Reports. As mentioned above, in both audits we reviewed, we found that Peace Corps OIG did not always perform timely supervisory review of the evidence supporting the findings, conclusions, and recommendations contained in the final audit reports before report issuance. GAS 6.82 states, "The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality." GAS 6.83c further requires auditors to document "supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report." Peace Corps OIG Audit Manual Chapter 3, Section 4, also states that auditors must "obtain supervisory review of all work papers germane to the audit report before issuing a preliminary report." Additionally, Peace Corps OIG's TeamMate Procedure Guide Chapter 3, Section 4, not only states that "Timely supervisory review is essential to address misunderstandings early," but also states that, "Signoffs provide the history of the procedures, programs, and schedules and shows evidence of supervisory review." Moreover, the TeamMate Procedure Guide describes, in detail, procedures for preparing and reviewing workpapers.¹⁰

Nonetheless, Peace Corps OIG issued the final Healthcare Audit report before reviewing 28 of the 44 workpapers directly referenced to the indexed draft report to support the report's findings, conclusions, and recommendations.¹¹ All 28 workpapers were eventually reviewed, although some were reviewed up to a month and a half after Peace Corps OIG issued the final audit report. Peace Corps OIG audit management provided e-mails maintained outside of the

¹⁰ Peace Corps OIG TeamMate Procedures Guide Chapter 3, Section 4, states that a workpaper is signed off as "Prepared" when the auditor/evaluator has completed the majority of the work and the work is ready for supervisory review. "Prepared" status is indicated in TeamMate by a green circle and the auditor's/evaluator's sign-off (that is, initials and date) in the "Prepared" field. The Guide further states that workpapers should be "Reviewed" before issuance of the preliminary report. "Reviewed" status is indicated in TeamMate by a blue square and the supervisor's sign-off (that is, initials and date) in the "Reviewed" field.

¹¹ This analysis only includes workpapers directly referenced from the Audit Results, Questioned Costs, and Objective, Scope, and Methodology sections of the indexed draft audit report. This includes TeamMate issues, procedure steps, and source documents and workpapers. Within each issue and procedure step, Peace Corps OIG included additional references to supporting workpapers. We did not include these second level references in our analysis of supervisory review and sign off as we were not always able to determine which references within the issues and procedure steps were relevant to the findings, conclusions, and recommendations in the report.

workpaper file that showed evidence of supervisory involvement throughout the audit. However, the e-mails did not demonstrate supervisory review, before the audit report was issued, of the evidence that supported the findings, conclusions, and recommendations contained in the audit report, as required by GAS 6.83c.

Similarly, Peace Corps OIG audit management provided an e-mail (maintained outside of the workpaper file and dated before the OIG issued the final Indonesia Post Audit report) that stated management had “finished off [i.e., reviewed] all Indonesia workpapers.” However, we determined that Peace Corps OIG issued the final Indonesia Post Audit report without reviewing 3 of the 30 workpapers used to support the findings, conclusions, and recommendations in the report.¹²

Peace Corps OIG’s Comments to Deficiency 1: Peace Corps OIG stated that Deficiency 1 overstates the effect of the supporting exceptions, overgeneralizes the current finding related to supervisory review of workpapers, and improperly correlates that finding with a 2013 peer review finding. Peace Corps OIG further stated that the organization has established a well-designed quality control program aimed at providing reasonable assurance of compliance with GAS. Nonetheless, Peace Corps OIG agreed with the nature of the exceptions and recommendations outlined in Deficiency 1, and further agreed that Peace Corps OIG did not always perform timely supervisory review of workpapers.

SEC OIG’s Response to Peace Corps OIG’s Comments. Despite Peace Corps OIG’s numerous policies, procedures, guidelines, and tools for monitoring the quality of audit work, as described in Deficiency 1, the peer review team identified weaknesses in Peace Corps OIG’s audit quality control program, including monitoring of quality to address repetitive issues. We continue to assert that these weaknesses may prevent management from having reasonable assurance that the policies and procedures related to the audit organization’s system of quality control are suitably designed and operating effectively.

With respect to supervisory review of workpapers and Peace Corps OIG’s 2013 peer review, footnote 9 of this System Review Report acknowledges that the 2013 peer review Letter of Comment warned of practices that may have delayed or complicated the supervisory review process, but did not assert that Peace Corps OIG failed to perform supervisory review of workpapers before issuing audit reports. However, footnote 9 also states that, as a result of internal quality assurance reviews, Peace Corps OIG itself determined that workpapers from one of the audits included in the 2013 peer review (as well as workpapers from audits performed in 2014 and 2015) may not have been properly reviewed. Although the underlying circumstances surrounding each of these issues may have differed, each internal and external review performed since 2013 indicated that Peace Corps OIG should improve its supervisory review of workpapers. Our work corroborated this, as described in Deficiency 1.

¹² This analysis only includes workpapers directly referenced from the Audit Results and Questioned Costs sections of the indexed draft audit report. The objective, scope, and methodology section of the report was not referenced. Although these 3 workpapers were not reviewed, the remaining 27 workpapers used to support the findings, conclusions, and recommendations in the Indonesia Post Audit report were reviewed before final report issuance.

To improve Peace Corps OIG's monitoring of and compliance with GAS and the quality control program within its audit organization, including monitoring of quality to address repetitive issues such as untimely supervisory review of audit documentation, we recommend that Peace Corps OIG:

Recommendation 1: Conduct the FY 2016 quality assurance review of its audit organization and document recommendations from the FY 2016 review and all future reviews, as appropriate, to correct identified findings.

Peace Corps OIG's Response. Peace Corps OIG agreed with this recommendation and will conduct the FY 2016 quality assurance review and update its quality assurance review process to require that recommendations for corrective action are properly documented. Peace Corps OIG also agreed that it has not sufficiently documented the process or resulting recommendations for corrective action and will put this requirement in place for all quality assurance reviews conducted from this point forward, including the FY 2016 quality assurance review. Peace Corps OIG plans to complete the FY 2016 quality assurance review and modifications to the Audit Manual relating to quality assurance reviews by March 15, 2018. Management's complete response is reprinted in Enclosure 3.

SEC OIG's Evaluation of Peace Corps OIG's Response. We consider Peace Corps OIG's actions to be responsive to our recommendation.

Recommendation 2: Ensure all required Peace Corps OIG quality control checklists are completed and documented in the workpaper files.

Peace Corps OIG's Response. Peace Corps OIG agreed with this recommendation and has reminded all audit staff to complete the checklists and store the checklists in the TeamMate files. In addition, Peace Corps OIG has enhanced its oversight in this area. The Assistant Inspector General for Audits now reviews workpaper files specifically to ensure that all quality control checklists are complete. Peace Corps OIG implemented this check beginning with both reports issued since the peer review exit conference. Management's complete response is reprinted in Enclosure 3.

SEC OIG's Evaluation of Peace Corps OIG's Response. We consider Peace Corps OIG's actions to be responsive to our recommendation.

Recommendation 3: Revise existing quality control procedures to ensure audit management fully addresses recommendations from peer reviews and annual quality assurance reviews.

Peace Corps OIG's Response. Although Peace Corps OIG believes it fully addressed all prior peer review findings, Peace Corps OIG agreed with this recommendation and will update its Audit Manual to specifically require and ensure recommendations from peer reviews or quality assurance reviews are addressed. Peace Corps OIG will update its Audit Manual by March 15, 2018. Management's complete response is reprinted in Enclosure 3.

SEC OIG's Evaluation of Peace Corps OIG's Response. We consider Peace Corps OIG's actions to be responsive to our recommendation.

Recommendation 4: Ensure that audit documentation that supports the findings, conclusions, and recommendations contained in audit reports is subject to supervisory review, at a minimum, before issuance of final reports.

Peace Corps OIG's Response. Peace Corps OIG agreed with this recommendation and stated that, although audit management provided comprehensive supervisory review of supporting audit documentation, Peace Corps OIG's processes for documenting that review should be improved. To ensure GAS compliance, Peace Corps OIG has instructed audit and editorial staff that final reports not be issued until Peace Corps OIG's Assistant Inspector General for Audits confirms that all supporting workpapers have received supervisory review and that the supervisory review has been documented in accordance with GAS and internal guidance. According to Peace Corps OIG, this recommendation has been implemented. Management's complete response is reprinted in Enclosure 3.

SEC OIG's Evaluation of Peace Corps OIG's Response. We consider Peace Corps OIG's actions to be responsive to our recommendation.

Deficiency 2: Inaccurate and Insufficient Reporting

Peace Corps OIG Reported Inaccurate Information in Final Audit Reports. We identified factual errors in both the Healthcare Audit and Indonesia Post Audit final reports. GAS Supplemental Guidance A7.02 states, "An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence." Additionally, Peace Corps OIG's Audit Manual Chapter 4, Section 1, requires reports to have strong supporting evidence and to be accurate.

During our review of the Healthcare Audit final report and supporting workpapers, we identified two inaccuracies. First, Peace Corps OIG overstated the number of claims that the auditors sampled. The final report states that the auditors sampled 604 claims. According to the workpapers, the auditors sampled 547 claims. Second, Peace Corps OIG overstated the amount of network fees paid by the Peace Corps. The final report states that the agency paid network fees of "over \$3.4 million through December 2014." According to the workpapers, Peace Corps paid \$3.357 million in network fees during that time. As part of its quality control procedures, Peace Corps OIG employs indexing and independent referencing processes to ensure report statements are accurate and properly supported. In both of these instances, the auditor who performed independent referencing duties questioned the figures cited in the indexed draft report. However, in both instances, the auditors did not ensure that the OIG corrected the figures in the final report.

We also found multiple inaccuracies in the Indonesia Post Audit final report. First, Peace Corps OIG incorrectly stated the appointment date of one of the sub-cashiers in the final report. The report states that the medical secretary was appointed as a sub-cashier in June 2014. However, the workpapers contained multiple appointment dates, therefore we were unable to understand from the audit documentation which date was correct. According to the auditors, they should have reported the medical secretary's appointment date as June 2013 (1 year earlier). As a result, the finding may be more significant than reported because the timeframe for when the post did not perform required cash counts may include an additional year. Second, the final audit report states that "cash advances to sub-cashiers were small: approximately \$400 [U.S. Dollar Equivalent (USDE)]." However, based on the

workpapers, only one sub-cashier was authorized to receive an advance of up to \$400 USDE, whereas the other sub-cashier was authorized to receive an advance of up to \$2,500 USDE. In addition, the report incorrectly refers to the amount of sub-cashier cash advances ("approximately \$400 USDE"), which was actually the amount the sub-cashier was authorized to receive, not the amount advanced or paid.

Although we do not believe that these inaccuracies limit the reliability or usefulness of the reports, we attribute these errors to inadequate oversight and quality control practices, including not indexing and referencing the final report, which we believe may have identified the errors. Without strong controls in place to ensure the accuracy of final reports, Peace Corps OIG increases the risk of issuing reports that cannot be relied upon.

Peace Corps OIG Did Not Present in Final Audit Reports Certain Sufficient, Relevant Information. We determined that Peace Corps OIG did not present in the final audit reports we reviewed certain sufficient, relevant information, including information that: (1) was related to the audit objectives, (2) promoted understanding of the prevalence and consequences of findings, and (3) explained the methodology used to select and review processes and associated controls. In addition, in the final report for the Indonesia Post Audit, Peace Corps OIG did not include a finding related to a recommendation. These issues are discussed in greater detail below.

Information Related to Audit Objectives. Peace Corps OIG did not address in the final Healthcare Audit report two of the audit's four announced objectives.¹³ GAS 7.14 states, "In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives." Moreover, GAS Supplemental Guidance A7.02 states objective reports are balanced in content and tone, including reporting on positive aspects of the program reviewed if applicable to the audit objectives. GAS Supplemental Guidance A7.02 further states a complete report contains sufficient, appropriate evidence needed to satisfy the audit objectives to include stating evidence and findings without omission of significant relevant information related to the audit objectives. Finally, Peace Corps OIG's Audit Manual Chapter 4, Section 1, requires balanced reports.

Peace Corps OIG audit management provided a document, maintained in the workpaper file, that stated that the auditors did not note any issues related to the two unaddressed audit objectives. However, the auditors did not include this information in the final audit report, nor did they include any other information in the report to address the two objectives. Without including information to address all audit objectives, including information that no issues were noted, Peace Corps OIG risks issuing unbalanced reports and reports that omit significant, relevant information related to the objectives.

¹³ According to Peace Corps OIG's announcement letter and final audit report, the Healthcare Audit had four objectives. We found no evidence in the workpaper file that Peace Corps OIG communicated to the agency a change in objectives. The two unaddressed objectives were to determine whether:

- "contractor payments are made based on eligible claimants and to only authorized providers"; and
- "the contractor's internal control over its manual and automated claims processing and payment system is effective in minimizing the potential for fraud, waste, and abuse."

Information That Promoted Understanding of the Prevalence and Consequences of Findings. In both of the final reports we reviewed, we found that auditors did not explain the relationship between the population and the items tested, the period covered, and the kinds and sources of evidence used when sampling. GAS 7.12 states:

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

Moreover, GAS 7.16 states auditors should relate instances identified to the population or the number of cases examined and quantify the results to give the reader a basis for judging the prevalence and consequences of the findings. GAS Supplemental Guidance A7.02 also states that a complete report promotes understanding of the matters reported by providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. In addition to GAS, Appendix B of Peace Corps OIG's Audit Manual requires that auditors verify that audit reports clearly explain the audit's scope, including the relationship between the population and items tested.

Although Peace Corps OIG included in the final Healthcare Audit report sampling results (specifically, that 25 of 254 claims were missing support), the report does not provide details on the value of the sample, the population from which the sample was drawn, the value of the population, or the methodology used to test the sample. Without detailed sampling methodology, including the relationship between the population and the items tested, period covered, and kinds and sources of evidence used, report users may not be able to understand the prevalence and consequences of the findings.

In addition, the final Indonesia Post Audit report states that personal services contractors submitted timesheets that did not adhere to Peace Corps policy, which states such contractors "may only carry over 24 credit hours during normal pay periods and 48 credit hours during pre-service training." According to the final report, personal services contractors "submitted timesheets exceeding these amounts." The report does not provide any additional information, such as the number of timesheets reviewed, the number of contractors involved, the number of times contractor credit hours exceeded the prescribed amounts and by how much, or the financial impact, if any, of exceeding the prescribed amounts. Such information would allow a reader to determine how the auditors reached their conclusion, the magnitude and prevalence of the condition, and the relationship between the population and the items tested.

Information That Explained the Methodology Used to Select and Review Processes and Associated Controls. The final Indonesia Post Audit report states that auditors reviewed the following 10 processes and associated controls for FYs 2010 through 2015: (1) bills of collection, (2) contracts and leases, (3) cash and non-cash payments, (4) imprest fund, (5) credit card transactions, (6) information technology general controls, (7) medical supplies, (8) personal property and vehicles, (9) personal services contracts, and (10) volunteer

payments. However, the report does not describe the methodology used to select and review each of these processes, including any comparative techniques or sampling performed.

According to GAS 7.09, in addition to describing audit objectives, auditors should include in the report a description of the scope and methodology used for addressing the audit objectives. Report users need this information to understand the purpose of the audit, the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology. Moreover, GAS 7.13 requires auditors to explain in the report how the completed audit work supports the audit objectives in sufficient detail to allow knowledgeable users of the report to understand how the auditors addressed the audit objectives. GAS 7.13 further states:

Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

Instead, for all post audits, Peace Corps OIG uses a template for the final report appendix containing the audit objectives, scope, and methodology. According to Peace Corps OIG audit management, the scope and methodology for each post audit may change based on auditor observations and assessment of audit risk. However, the audit organization does not update or change the scope and methodology information presented in the final audit report. In the final Indonesia Post Audit report, auditors only updated the objective, scope, and methodology template to reflect the fiscal years covered by the audit, and remaining portions of the report did not discuss in detail the steps taken to address the 10 processes selected for audit.

Final Indonesia Post Audit Report Did Not Include a Finding Related to a Recommendation. In the final report for the Indonesia Post Audit, Peace Corps OIG management did not include a finding related to a recommendation. Specifically, Peace Corps OIG management recommended that the director of management and operations "implement procedures to comply with Peace Corps travel policy and procedures for travel advances and timely submission of travel expenses by staff." The related finding in the report addresses the policy for travel advances, noncompliance with the travel advance policy, and the effect of that noncompliance. However, the finding does not address requirements for, or provide evidence of, a lack of timely submission of travel expenses by staff. According to the workpapers, the auditors found that Peace Corp staff did not timely submit travel expenses, but the auditors did not include this information as a finding within the report to support that aspect of the recommendation. GAS 7.28 states that auditors should make recommendations that flow logically from the findings and conclusions. Moreover, GAS Supplemental Guidance A7.02d states that convincing audit reports include conclusions and recommendations that flow logically from the facts presented, because doing so can help focus responsible officials on the matters that warrant attention and can provide incentive for taking corrective action. In addition, Chapter 2, Section 3, of Peace Corps OIG's Audit Manual states that the auditor tasked with referencing each audit report is responsible for identifying deficient workpaper references, including conclusions and recommendations that are not logically inferred from the material presented in the report.

Without sufficient, relevant information about audit objectives, scope, methodology, and findings, users of final audit reports may have difficulty understanding the nature and extent of the work performed, as well as the context and perspective of the findings and conclusions. It may also be unclear to all users of Peace Corps OIG reports (including users external to the agency) whether the recommendations are appropriate to address the findings and conclusions.

Peace Corps OIG's Comments to Deficiency 2: Peace Corps OIG disagreed with this deficiency. In particular, Peace Corps OIG stated that the Healthcare Audit included all required information per its objectives, and the Indonesia Post Audit recommendation was supported by and logically flowed from a finding. In Peace Corps OIG's opinion, the remaining two findings do not rise to the level of a deficiency. Moreover, according to Peace Corps OIG, including "inaccurate reporting" as a deficiency is misleading and overstates the issue because the draft System Review Report concluded that the report inaccuracies identified by the peer review team did not limit the reliability and usefulness of Peace Corps OIG's reports. In Peace Corps OIG's opinion, the identified cause of inaccurate reporting (quality control) was extensively addressed in Deficiency 1. In addition, Peace Corps OIG stated that the inaccuracies identified did not impact the findings, conclusions, or recommendations of Peace Corps OIG's reports, and should be considered the effect of the condition already addressed in Deficiency 1 (quality control).

With respect to the two unaddressed objectives in the Healthcare Audit report, Peace Corps OIG disagreed with the interpretation of GAS 7.14. Specifically, according to Peace Corps OIG, GAS 7.14 requires that all findings, conclusions, and recommendations tie to an objective, and does not require that all objectives have findings, conclusions, or recommendations in the audit report. Further, Peace Corps OIG asserted that the draft System Review Report did not address how not including "neutral information" creates a risk of imbalanced reporting such that GAS A7.02 would be implicated. According to Peace Corps OIG, audit staff briefed the responsible officials on the work performed on the two objectives. However, the auditor, based on professional judgement, determined that the information briefed did not merit sufficient significance to be addressed in the audit report. Although Peace Corps OIG agreed that the auditor could have noted the briefing in the audit report, Peace Corps OIG disagreed that not doing so created the risk of imbalanced reporting.

With respect to the Indonesia Post Audit report recommendation related to travel advances and expenses, Peace Corps OIG asserted that the finding is, in part, supported by the administrative officer's commitment to take corrective action to ensure timely clearance of travel expenses¹⁴ within 5 days. Peace Corps OIG also stated that the recommendation that the relevant management official implement procedures to comply with agency travel policy and procedures for the timely submission of travel expenses logically flows from the finding.

Despite Peace Corps OIG's disagreements with Deficiency 2, management stated that the report inaccuracies noted were preventable, and Peace Corps OIG will improve its audit policies and procedures to ensure more consistent reporting in the future. In addition, Peace Corps OIG agreed that its reporting on sampling methodologies can be improved.

¹⁴ We note that the Indonesia Post Audit report states that "The DMO will monitor travel advances weekly to support clearance of **advances** (emphasis added) within 5 days of travel ending."

SEC OIG's Response to Peace Corps OIG's Comments. While we appreciate Peace Corps OIG's views on the structure and organization of the System Review Report, we relied on our professional judgement to determine the relative importance and presentation of conditions identified during the peer review. This System Review Report contains two deficiencies resulting from numerous findings, which the CIGIE *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General* defines as noncompliance with GAS and/or the reviewed OIG audit organization's policies and procedures. The first deficiency in this System Review Report relates to weaknesses in Peace Corps OIG's monitoring of and compliance with its quality control program, and primarily addresses repeated or similar instances of noncompliance with GAS and/or Peace Corps OIG quality control procedures and standards. As stated in the first deficiency, the repeated or similar instances of noncompliance that we observed, some of which dated from 2013, indicate that Peace Corps OIG has not sufficiently addressed the underlying deficiencies. The second deficiency in this System Review Report relates to inaccurate and insufficient reporting¹⁵ of audit results, which was not a repeat issue. Furthermore, in our professional judgement, the relative importance of accurate and sufficient audit reports, combined with the nature, pattern, and pervasiveness of the report-related findings we identified, warranted a separate deficiency specific to GAS Reporting Standards for Performance Audits. Finally, we note that Peace Corps OIG stated in its response to the draft of this System Review Report that Deficiency 2 has "inaccurate" findings. We strongly disagree with this statement and note that, although Peace Corps OIG disagreed with our interpretation of GAS and our professional judgement in several instances, Peace Corps OIG did not identify any factually inaccurate information in its response.

Although Peace Corp OIG asserted that the Healthcare Audit report included all required information per its objectives, in addition to the GAS citations provided in our draft report, we note that GAS 7.03 states that "Auditors must issue audit reports communicating the results of each completed performance audit." Moreover, GAS 7.05 makes clear that the purposes of audit reports include (1) communicating audit results to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) making the results less susceptible to misunderstanding; and (3) making the results available to the public, unless specifically limited. According to Peace Corps OIG, the auditors conducted sufficient work to answer the two objectives and verbally reported the results to Peace Corps management. However, in part, because the report did not address the two objectives, it remains unclear what "neutral information" means in the context of the two unaddressed Healthcare Audit objectives. GAS 6.08 states that 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. Therefore, based in part on the two objectives in question, Peace Corps OIG undertook the audit to answer the following questions: Were contractor payments made based on eligible claimants and to only authorized providers? And was the contractor's internal control over its manual and automated claims processing and payment system effective in minimizing the potential for fraud, waste, and abuse? Presumably, answers to these questions would be useful for individuals who were not present during the verbal briefing provided by the auditors, including those charged with governance, oversight officials,

¹⁵ In its response to the draft of this System Review Report, Peace Corps OIG stated that it will improve its audit policies and procedures to ensure more "consistent" reporting in the future. However, Deficiency 2 relates to inaccurate and insufficient reporting and not inconsistent reporting.

and members of the public. Moreover, as stated in GAS 7.14, auditors may not develop all elements of a finding; however, in the audit report, “a finding or set of findings is complete to the extent that the auditors address the audit objectives.” Therefore, to aid in the understanding of the audit work performed and the audit results, we maintain that, at a minimum, the auditors should have included in the report the condition (that is, the situation that existed, per GAS 6.75)—whether positive, negative, or neutral—with respect to the two objectives in question.

Regarding Recommendation 5 in the final Indonesia Post Audit report, the corresponding finding exclusively discusses noncompliance with Peace Corps’ travel policy and procedures related to issuance of travel advances. Specifically, the finding states that the post issued “excessive” travel advances (that is, for an entire quarter, despite Peace Corps policy that advances not exceed 45 days). As stated in Deficiency 2, the final Indonesia Post Audit report does not include a discussion of travel expense requirements, or provide any evidence that staff failed to timely submit travel expenses. Yet, Peace Corps OIG recommended that Peace Corps management implement procedures to comply with agency policy and procedures, ***including those for timely submission of travel expenses***. Although the administrative officer agreed to monitor travel advances weekly to support clearance of advances (including, presumably, submission of expenses) within 5 days of travel ending, this statement by the auditee does not alleviate Peace Corps OIG’s responsibility to comply with the requirements of GAS 7.28 and GAS Supplemental Guidance A7.02d.

To improve Peace Corps OIG’s audit reports, we recommend that Peace Corps OIG:

Recommendation 5: Clarify procedures, as necessary, to ensure reports: (a) present accurate statements of fact; (b) fully address all audit objectives; and (c) explain the objectives, scope, and methodology used, including the relationship between the population and the items tested, the period covered, and the kinds and sources of evidence used when sampling.

Peace Corps OIG’s Response. Peace Corps OIG agreed with this recommendation, although management stated that the inaccuracies cited were immaterial and Peace Corps OIG did not violate GAS. However, Peace Corps OIG will update its Audit Manual to ensure its quality assurance program mitigates the risk of inaccuracies. Also, Peace Corps OIG will include guidance in its Audit Manual to ensure that every objective is addressed regardless of whether the audit yields relevant findings or conclusions, although management stated that all findings and conclusions as they relate to audit objectives were appropriately addressed. Lastly, Peace Corps OIG stated that it has made extensive improvements to its presentation of audit scope and methodology, and its reporting on sampling methodology. Peace Corps OIG plans to amend its Audit Manual and reporting templates to reflect these improvements by March 15, 2018. Management’s complete response is reprinted in Enclosure 3.

SEC OIG’s Evaluation of Peace Corps OIG’s Response. We consider Peace Corps OIG’s actions to be responsive to our recommendation.

Recommendation 6: Remind auditors and independent referencers to follow guidance to ensure that all recommendations correspond to and flow logically from findings and conclusions contained in audit reports.

Peace Corps OIG's Response. Peace Corps OIG agreed with this recommendation; however, management stated that all recommendations flowed logically from the findings and conclusions in the organization's reports. Although Peace Corps OIG disagrees with the finding associated with this recommendation, by March 15, 2018, management will remind all auditors and independent referencers of the importance of ensuring recommendations correspond to and flow logically from findings and conclusions. Management's complete response is reprinted in Enclosure 3.

SEC OIG's Evaluation of Peace Corps OIG's Response. We consider Peace Corps OIG's actions to be responsive to our recommendation.

Enclosure 2

Scope and Methodology

We tested compliance with the system of quality control established by Peace Corps Office of Inspector General's (OIG) audit organization to the extent we considered appropriate. These tests included a review of supporting documentation for two of five judgmentally selected audit reports issued between October 1, 2015, and September 30, 2016, and semiannual reporting for the same period. We also reviewed the annual quality assurance reviews performed by Peace Corps OIG for fiscal years (FY) 2013, 2014, and 2015, and corrective action taken to address findings from Peace Corps OIG's 2013 peer review of its audit organization.

In addition, we reviewed Peace Corps OIG's monitoring of audits performed by Independent Public Accountants where the Independent Public Accountant served as the auditor between October 1, 2015, and September 30, 2016. During this period, Peace Corps OIG contracted for the audit of its agency's FY 2015 financial statements.

We visited Peace Corps OIG's office located in Washington, DC, and met with management to discuss our findings and observations. We performed this review between December 2016 and November 2017.

Reviewed Audits Performed by Peace Corps OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
IG-16-02-A	January 21, 2016	Audit of Peace Corps' Healthcare Benefits Administration Contract
IG-16-03-A	June 17, 2016	Audit of Peace Corps/Indonesia

Reviewed Monitoring Files of Peace Corps OIG for Contracted Audits

<u>TeamMate File No.</u>	<u>Transmittal Date</u>	<u>Transmittal Title</u>
15-AUD-98	November 6, 2015	Audit of Peace Corps Fiscal Year 2015 Financial Statements

Enclosure 3

Peace Corps OIG Response to the Draft System Review Report



Dear Mr. Hoecker,

Thank you for the opportunity to review and comment on your draft System Review Report. We appreciate the time and effort you and your staff put into conducting this review.

You have identified six recommendations in this report. We have taken or are in the process of taking corrective action for all of the recommendations. However, as described to your staff before and during the exit conference, Deficiency 2 has inaccurate and inappropriately-included findings. Our detailed final draft response to each recommendation can be found in Enclosure 1.

Thank you for your assistance in identifying areas of our operations in need of improvement. If you have any questions, please contact me at (202) 692-2900.

Sincerely,

Kathy A. Buller
Inspector General
Peace Corps

Enclosure 1

Deficiency 1 – Inadequate Monitoring of and Noncompliance with Quality Control Program

While we agree with the nature of the exceptions and recommendations outlined in this section, the Deficiency overstates the effect of the supporting exceptions. Peace Corps OIG has established a well-designed quality control program aimed at providing reasonable assurance of compliance with the GAGAS standards. We have numerous policies, procedures, guidelines, and tools that systematically monitor the quality of our audit work.

We agree that we did not always perform timely supervisory review of workpapers. However, the System Review Report overgeneralizes the current finding and improperly correlates it with a 2013 peer review finding. The relevant 2013 peer review finding discussed difficulties related to using our audit software program for supervisory review of workpapers *while in the field*. The 2013 peer review noted that Peace Corps OIG procedures complied with government auditing standards by requiring supervisory review before final report issuance, and did not note any lack of compliance with that standard.

Below is our response to the recommendations:

Recommendation 1: Conduct the FY 2016 quality assurance review of its audit organization and document recommendations from the FY 2016 review and all future reviews, as appropriate, to correct identified findings.

Agree. We will conduct the FY 2016 quality assurance review and update our quality assurance review process to require recommendations for corrective action are properly documented. While we currently communicate the findings of the quality reviews to audit personnel, we have not sufficiently documented the process or resulting recommendations for corrective action. The requirement will be in place for all quality assurance reviews conducted from this point forward, including the FY 2016 quality assurance review.

Status: The FY 2016 quality assurance review and modifications to the audit manual relating to our quality assurance review will be completed by March 15, 2018.

Recommendation 2: Ensure all required Peace Corps OIG quality control checklists are completed and documented in the workpaper files.

Agree. All audit staff were reminded to complete the checklists and store them in the TeamMate files. We have enhanced our oversight in this area. The AIG/A now reviews workpaper files specifically to ensure that all quality control checklists are complete. We implemented this check beginning with both reports issued since the peer review exit conference.

Status: Implemented.

Recommendation 3: Revise existing quality control procedures to ensure audit management fully addresses recommendations from peer reviews and annual quality assurance reviews.

Agree. We believe we have fully addressed recommendations from prior peer reviews, but will update our audit manual to specifically require and ensure recommendations from peer reviews or quality assurance reviews are addressed.

Status: The audit manual will be updated by March 15, 2018.

Recommendation 4: Ensure that audit documentation that supports the findings, conclusions, and recommendations contained in audit reports is subject to supervisory review, at a minimum, before issuance of final reports.

Agree. Audit management provided comprehensive supervisory review of supporting audit documentation, but our processes for documenting that review should be improved. Our Audit Manual provided for multiple methods of supervisory review while placing a preference on documenting supervisory review of workpapers in TeamMate. To ensure GAGAS compliance, we have instructed audit and editorial staff that final reports not be issued until the AIG/A confirms that all supporting workpapers have received supervisory review and that the supervisory review has been documented in accordance with GAGAS and internal guidance.

Status: Implemented.

Deficiency 2 - Inaccurate and Insufficient Reporting

We disagree with this deficiency. In particular, we disagree that two of the exceptions noted in this section support a finding of insufficient reporting. Specifically, we believe our Healthcare Audit included all required information per its objectives and our Indonesia Post Audit recommendation is supported by and logically flows from a finding. The remaining two findings do not rise to the level of a deficiency.

The System Review Report concluded that the inaccuracies it noted did not limit the reliability and usefulness of our reports. Therefore, including "inaccurate reporting" as a deficiency is misleading and overstates the issue. The review report improperly treats the identified cause (quality control), already extensively addressed in deficiency 1, as separate from the effect (immaterial inaccuracies). One exception cited is the use of a plural versus a singular in discussing cashiers assigned to post. These inaccuracies did not impact the findings, conclusions, or recommendations of our reports, and do not support the cited deficiency. Rather, they should be considered the effect of the condition already addressed in Deficiency 1 (quality control).

We acknowledge that while government auditing standards do not hold auditors to an infallibility standard, the inaccuracies noted, while not significant, are preventable. In this regard, we will improve our audit policies and procedures to ensure more consistent reporting in the future.

We also disagree with the interpretation of GAGAS 7.14 as it relates to our reporting on two objectives in one of the audit reports reviewed. The finding is based on the assertion that not reporting on objectives without findings (positive or negative) amounts to non-reporting on a conclusion stemming from our audit work. Rather, GAGAS 7.14 requires that all findings, conclusions, and recommendations tie to an objective. This standard does not require that all objectives have findings, conclusions, or recommendations in the audit report. Further, the System Review Report does not address how not including neutral information creates a risk of

imbalanced reporting such that GAGAS A7.02 would be implicated. We did brief the responsible officials on the work we performed on the two objectives. However, the auditor, based on professional judgement, determined that the information briefed did not merit sufficient significance to be addressed in the audit report. Reasonable auditors could disagree on how to address these issues; for example, we could have noted the briefing in our report. However, we disagree that this created the risk of imbalance in our reporting.

The final exception cited in the Systems Review Report states that we did not include a finding related to a recommendation in an audit report. We disagree. The finding was that the Peace Corps did not comply with its travel policy and procedures. Peace Corps travel policy and procedures encompass both the procedures for travel advances and timely submission of travel expenses. The finding is further supported by the administrative officer's commitment to take corrective action to ensure timely clearance of travel expenses - within 5 days. The recommendation that the relevant management official implement procedures to comply with agency travel policy and procedures for the timely submission of travel expenses logically flows from the finding.

The remaining two exceptions cited in this deficiency relate to how our reports present our scope and methodology. We agree that our reporting on sampling methodologies can be improved. However, given the nature, causes, pattern, pervasiveness of the issues and their relative importance to the overall system of quality control, we do not believe these exceptions rise to the level of a deficiency.

Our response to the recommendations made in this section is as follows:

Recommendation 5: Clarify procedures, as necessary, to ensure reports: (a) present accurate statements of fact; (b) fully address all audit objectives; and (c) explain the objectives, scope, and methodology used, including the relationship between the population and the items tested, the period covered, and the kinds and sources of evidence used when sampling.

Agree. The inaccuracies cited to in the System Review Report are immaterial and we did not violate GAGAS. However, we will update our audit manual to ensure our quality assurance program mitigates the risk of inaccuracies. All findings and conclusions as they relate to audit objectives were appropriately addressed in our reports. We also noted and provided evidence that the agency was briefed on the results of all objectives. However, we will include guidance in our audit manual to ensure that every objective is addressed regardless of whether the audit yields relevant findings or conclusions. We have made extensive improvements to our presentation of audit scope, methodology, and reporting on sampling methodology

Status: We will amend our audit manual and reporting templates to reflect these improvements by March 15, 2018.

Recommendation 6: Remind auditors and independent referencers to follow guidance to ensure that all recommendations correspond to and flow logically from findings and conclusions contained in audit reports.

Agree. All of our recommendations flowed logically from the findings and conclusions in our audit reports, including the one used as an example in the System Review Report. While we disagree with the finding associated with this recommendation, we will remind all auditors and independent referencers of the importance of ensuring recommendations correspond to and flow logically from findings and conclusions.

Status: All staff will be briefed as such by March 15, 2018.