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Report to the Chairman, Legislation and
National Security Subcommittee,
Committee on Government Operations,
House of Representatives

August 1987

INSPECTORS
GENERAL

Compliance With
Professional Standards
by the Transportation
Inspector General



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Management Division

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August 10, 1987

The Honorable Jack Brooks
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

10021
In a January 9, 1986, letter, you asked us to conduct an in-depth review of the Department of Transportation's Office of Inspector General (OIG). As agreed upon with your office, we used a review methodology similar to that used in our recent "quality assessment reviews" of the inspector general offices at the departments of Commerce and Agriculture and at the Environmental Protection Agency and the General Services Administration.

Our principal objectives were to determine whether the OIG conducts audits in accordance with generally accepted government auditing standards and other professional standards, and conducts investigations in accordance with standards adopted for OIG investigations by the President's Council on Integrity and Efficiency (PCIE). Compliance with such professional standards provides users of audit and investigation reports with greater assurance that the work was adequately performed and the results of the work can be relied on for decision-making and oversight purposes. Noncompliance with standards can result in unwarranted reliance on OIG reports or cast doubt on the credibility of OIG work.

The standards are guiding principles which must be applied with professional judgment in individual circumstances. While compliance with standards helps ensure quality work, judgments about compliance cannot be rigidly made. Instead, as in our earlier reviews, we use the term "satisfactory compliance" with a professional standard to mean we found adherence to a standard in a substantial majority of situations tested. In making that determination, we also considered the nature and significance of any instances of noncompliance and judged whether they may impair OIG operations, credibility, or report findings. Since no absolute measurement criteria exist for evaluating compliance with standards, review team members relied heavily on professional judgment.

In addition to our principal objective of evaluating compliance with professional standards, we also evaluated (1) how the OIG tracks management's implementation of audit recommendations and (2) the accuracy of information in the OIG's semiannual reports.

Scope and Methodology

We assessed the OIG's compliance with standards by examining whether its investigation and audit functions complied with 11 investigation and 12 audit standards, respectively. Our approach involved (1) evaluating the OIG's controls, including written policies and procedures, for ensuring adherence to the standards, (2) reviewing a sample of investigation and audit reports and supporting documents for recently completed assignments, and (3) reviewing, testing, and evaluating other evidence of OIG compliance with the standards.

During our review, we met periodically with OIG staff to discuss our observations. In addition, we provided the OIG staff, including those directly involved in assignments, with our observations on the investigations and audits we reviewed.

We conducted our review between February 1986 and December 1986 in accordance with generally accepted government auditing standards.

This report contains several recommendations to the inspector general (IG) on corrective actions to help the OIG satisfactorily comply with the professional standards and improve operations. In addition, we are making several recommendations to the inspector general, which we believe will help further strengthen the OIG operations. While these recommendations address certain issues that were not significant enough to materially affect the OIG's satisfactory compliance with the standards, we believe they are important enough to bring to the inspector general's attention.

We obtained official agency comments on a draft of this report from the Department of Transportation's inspector general. Our general evaluation of these comments appears on page 5 and specific comments are addressed in appendix I as appropriate.

Appendix I includes a detailed discussion of our review findings and is an integral part of this report. Appendix II provides additional details on our objectives, scope, and methodology. Appendixes III and IV list the audit and investigation standards we used and give our observations

of compliance with each standard. Appendix V includes the inspector general's comments on our draft report.

Conclusions

The OIG satisfactorily complies with 19 of the 23 audit and investigation standards for the areas we tested. However, corrective actions are needed to bring the OIG into satisfactory compliance with certain areas of the audit standards on evidence, reporting, supervision, and quality assurance. While the OIG does comply with some areas of these standards, corrective actions are needed to bring the OIG into satisfactory compliance with others, such as documenting audit supervisors' reviews of subordinates' work, obtaining adequate evidence to support audit report statements, ensuring audit reports are clear and convincing, and developing a comprehensive quality assurance program.

While the Transportation OIG has developed policies to help ensure professional standards are followed, some of the policies in the areas we found in noncompliance were not adequate. We believe the OIG can better ensure adherence to standards by strengthening and expanding its policies in these areas. However, we also believe that policies by themselves do not ensure adherence to standards.

It is important that all OIG staff have an awareness and understanding of professional standards and corresponding OIG policies. This awareness and understanding is critical for staff to perform quality work which meets both the needs of their organization and the requirements set out in the professional standards.

It is also important that the OIG have audit-quality processes which provide reasonable assurance of adherence to audit standards. The results of our review indicate that these processes are not always working. Adequate audit-quality processes alert management to problems which can impact the quality and effectiveness of its work and allow management to take corrective actions.

The OIG does not track all audit report recommendations through the implementation of corrective actions. By not tracking recommendations with savings under \$100,000 and procedural recommendations, we believe the OIG is losing the benefit of some of its most important work. Therefore, we believe the OIG should track all its significant recommendations through implementation of corrective action, not just those with savings over \$100,000.

We found the OIG's semiannual reports show dollar findings that differ from those shown in the corresponding audit reports. While we believe the OIG is justified in adjusting the numbers in its semiannual reports, we think the OIG should adequately explain these differences. It is important that the Congress and other users of the reports understand the basis for each adjustment to prevent any misunderstanding about the accuracy of the figures.

Recommendations

To assist the Transportation Office of Inspector General in satisfactorily complying with certain areas of the audit standards, we recommend the inspector general

- ✓ • expand OIG policies on evidence to define the various types of evidence, such as documentary and analytical, and provide guidance on their appropriate use;
- ✓ • develop and implement a process, such as referencing, to help ensure the adequacy of evidence;
- ✓ • examine the OIG's process for reviewing audit reports to determine whether it is functioning in a manner which ensures reasonable assurance of compliance with the reporting standard;
- ✓ • enforce OIG policies which require supervisors to fully review all of the audit work performed, document their supervisory review, and educate the staff on these policies; and
- ✓ • expand the scope of the OIG quality assurance program to provide reasonable assurance of adherence to the standards for performing audits and conduct more frequent reviews.

To further strengthen operations at the Transportation Office of Inspector General, we recommend the inspector general

- ✓ • revise OIG policies and procedures to provide more precise guidance on preparing clear and understandable working papers,
- ✓ • clarify OIG policies on reporting to ensure that (1) audit reports accurately reflect the audit's objectives and scope and (2) the objectives are adequately addressed,
- ✓ • implement OIG policy on following up on evaluation report recommendations,
- ✓ • track all of its significant recommendations through implementation and take prompt and appropriate action to resolve any recommendation that the agency managers do not fully implement, and
- ✓ • explain in the semiannual report why some of the dollar figures reported differ from those in the corresponding audit reports.

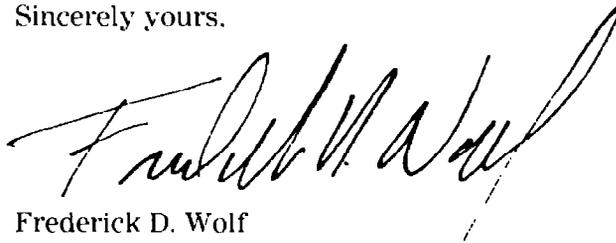
Agency Comments and Our Evaluation

The inspector general has agreed to take corrective actions on all our recommendations and in some cases corrective actions have already been initiated. Though he did not agree with all the specific deficiencies cited in our report supporting our determination of noncompliance with the four audit standards, he viewed the report's recommendations as positive, helpful steps in improving OIG operations.

We believe the corrective actions already taken or planned by the OIG will help bring it into compliance with the evidence, reporting, and supervision standards and further strengthen its operations. One of our major concerns was the need for the OIG to strengthen its quality assurance program to comply with the standard. The OIG is in the process of restructuring its program, but we could not determine from the comments if the scope of the program is being expanded to provide better assurance of adherence to audit standards. A draft of the restructured program will be available in August, and we will review it to ensure the comprehensiveness of the program. (See page 19.)

Unless you publicly announce the contents of this report earlier, we plan no further distribution of this report until 30 days from the date of this report. At that time, we will send copies to the Director, Office of Management and Budget; Secretary of Transportation; Inspector General, Department of Transportation; and interested Members of Congress.

Sincerely yours,



Frederick D. Wolf
Director

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Abbreviations

FAA	Federal Aviation Administration
IG	inspector general
NASP	National Airspace System Plan
NPIAS	National Plan of Integrated Airport Systems
OIG	Office of Inspector General
PCIE	President's Council on Integrity and Efficiency
UMTA	Urban Mass Transit Administration

Details on Review Findings

The Inspector General Act of 1978, as amended, and other legislation established an OIG in the Department of Transportation and in other departments and agencies. The President, with the advice and consent of the Senate, appoints the inspector general (IG), who directs the office. The IG is under the general supervision of and reports to the Secretary of Transportation. From January to October 1986, the Transportation OIG was under the direction of Acting Deputy Inspector General Joseph Genovese. On October 14, 1986, John Melchner became the inspector general.

The OIG mission is to (1) prevent, detect, and reduce fraud, waste, abuse, and mismanagement and (2) promote economy, efficiency, and effectiveness in the Department of Transportation. The OIG primarily accomplishes its mission by conducting audits and investigations of departmental operations. It carries out its mission through three major organizational units: the Office of Auditing, the Office of Investigations, and the Office of Policy, Planning, and Resources, which is the OIG administrative support arm. Each of the offices is directed by an assistant inspector general who reports directly to the IG. The Transportation OIG employs about 460 staff members and works in a federal department with about 100,000 employees and fiscal year 1986 budget outlays of over \$27 billion.

The OIG investigates criminal and administrative wrongdoing involving departmental employees, programs, activities, and functions. Most of this work involves investigations conducted after the department suspects crimes have been committed. However, the OIG also performs "proactive" work designed to prevent and detect unsuspected fraud in vulnerable programs and activities. In a planning document for fiscal year 1986, the OIG planned to devote about 40 percent of investigative resources to proactive efforts, such as detecting and preventing bid-rigging in Transportation-funded construction programs.

The Transportation OIG expends about 66 percent of its audit resources on three administrations: the Federal Highway Administration, the Federal Aviation Administration, and the U.S. Coast Guard. These administrations account for about 78 percent of the program dollars in the department's budget. Almost all OIG audits are economy and efficiency

reviews¹ or program results reviews² of compliance with program regulations.

The OIG also performs some financially oriented audits. These audits are typically directed toward specific financial reports of a single accounting system, such as cash management, year-end spending, and the reliability of accounting systems which produce financial reports. However, the OIG generally does not perform traditional financial and compliance audits which review organizationwide financial statements, internal controls, compliance with laws and regulations, and the reliability of accounting systems to produce accurate and meaningful reports for a total agency or segments of the agency. As we have stated in our prior quality assessment reviews, we believe such audits increase the discipline needed for sound financial management, enhance oversight, and help ensure financial integrity.

Compliance With Investigation Standards

The OIG investigation function satisfactorily complies with each of the 11 professional standards for the areas we tested. These standards are (1) staff qualifications, (2) independence, (3) planning, (4) due professional care, (5) directing and controlling, (6) coordination, (7) reporting, (8) preserving confidentiality, (9) screening allegations, (10) information management, and (11) quality assurance. Appendix III provides our observations of compliance with each standard.

We assessed compliance by using the standards adopted for OIG investigations by the President's Council on Integrity and Efficiency. The PCIE issued Quality Standards for Federal Offices of Inspector General in January 1986, which applies to all OIG functions including investigations, and adopted Interim Professional Standards for Investigations, to supplement the quality standards in guiding the operations of an OIG investigation function.

Compliance With Audit Standards

The OIG audit function satisfactorily complies with 8 of the 12 standards for the areas we tested. These 8 standards are (1) staff qualifications, (2) independence, (3) individual job planning, (4) annual audit planning, (5) legal and regulatory requirements, (6) internal controls, (7) fraud,

¹Reviews of how well an organization manages and uses its resources.

²Reviews of the outcomes or impacts of programs, compliance with laws and regulations, and program costs.

abuse, and illegal acts, and (8) audit follow-up. While the OIG satisfactorily complies with some areas of the remaining 4 standards on evidence, reporting, supervision, and quality assurance, improvements are needed to bring certain other areas into satisfactory compliance. Appendix IV provides our observations of compliance with each standard. We also found that some OIG policies and procedures on evidence are unclear and that the OIG staff are not always aware of current policies and procedures. We believe that clarifying policies and procedures and increasing the staff's awareness of them could assist the OIG in making improvements to satisfactorily comply with standards.

The Inspector General Act of 1978 requires that IGs comply with generally accepted government auditing standards established by the Comptroller General. These standards are contained in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. In addition, other standards apply to the OIG audit function. In January 1986, the PCIE issued Quality Standards for Federal Offices of Inspector General, which applies to all OIG functions. Also, Office of Management and Budget circular A-73, "Audit of Federal Operations and Programs," provides guidance for annual audit planning, which we included as a standard.

Evidence

The evidence standard requires auditors to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for their judgments and conclusions regarding the organization, program, activity, or function under audit. A written record of the auditor's work must be retained in the form of working papers that are complete, accurate, clear, legible, and relevant.

We found the OIG complies with some areas of the evidence standard. For example, the working papers for our sample of 21 audits were generally relevant to achieving audit objectives and, with one exception, documented the nature and scope of the audits.

However, while the OIG complies with certain areas of this standard, corrective action is needed in two others to satisfactorily comply with the standard. First, the OIG needs to ensure that there is sufficient evidence which is factual, adequate, and convincing enough to lead others to the same conclusion as the auditor. Second, the OIG needs to ensure that competent evidence is used—that is, evidence which is reliable and obtained from the best source available.

In 8 of 21 audits, the OIG did not comply with the evidence standard in at least one of these two areas. As previously stated, we did not redo any of the audits to determine the validity of the OIG findings and conclusions. However, we are concerned that the identified evidence weaknesses increase the risk that problems may exist with OIG findings and conclusions.

In 7 of 21 audits, we identified factual statements in audit reports which the working papers did not support with sufficient evidence. To illustrate, one of the 7 audits assessed a major procurement of radar systems at the Federal Aviation Administration (FAA). A key issue in both the procurement decision and the OIG's audit was the cost of each radar system versus the benefits derived. While the OIG did not reach a conclusion on the system's benefits, it reported costs as \$4 million per unit. Neither we nor the OIG auditors could find supporting documentation for this cost in the working papers. Instead, the working papers showed cost estimates ranging from \$3.4 million to \$6 million. In another audit, the OIG concluded the Urban Mass Transportation Administration (UMTA) was not taking prompt collection action on debts. As an illustration of this point, the OIG used six examples of UMTA's inaction or late action on debt collection. However, our review of the working papers showed that in 3 of these examples UMTA had not made a final determination that a debt existed. Absent this decision, there is no basis on which to reach the conclusion that UMTA should take collection action on these three cases.

In 6 of 21 audits, factual statements in audit reports were not supported with competent evidence. To illustrate, one of the 6 audits reviewed the level of excess real property in one Coast Guard district. The OIG recommended the disposal of property with a current market value of \$3 million. While the working papers contained the \$3 million figure, they did not contain information regarding how this estimate was made. The property valuation was derived from estimates made by audit staff members, but no documentation of their qualifications to make such estimates was in the working papers. Even if the staff had the expertise to make the estimates and their expertise had been documented, the method used by the staff, such as comparing the real property to similar property recently sold, should have been included in the working papers.

In another case, the OIG examined the number of vehicles needed in one Coast Guard district and recommended that the number be reduced by requiring that the reserve units share vehicles with the active-duty

staff. The OIG staff made this recommendation based on the assumption that reserve units work only on weekends while active-duty staff work only on weekdays. The auditor-in-charge stated the staff made this assumption because they were unable to contact reserve-unit staff on weekdays. The working papers include this assumption, but they do not show how it was developed. In its comments to the OIG, the Coast Guard pointed out that this assumption was incorrect and that reserve units frequently work weekdays and active-duty staff often work weekends.

We found that OIG policies on evidence do not provide adequate guidance on competent evidence. For example, they do not define the various types of evidence, such as documentary and analytical, nor do they provide guidance on the appropriate uses of the evidence. We believe the OIG should expand its policies to include this type of information. In his June 30, 1987, response to our draft report, the IG stated that OIG policies will be expanded during October 1987 to include definitions for the various types of evidence, guidance on the appropriate use of each kind of evidence, and some examples of their appropriate use.

Currently, the OIG policies require audit supervisors to review working papers to ensure reports are supported and to document their reviews. However, as discussed under the supervision standard, on six of the audits where we found a lack of proper support, supervisory review was not adequately documented. We believe the OIG needs to strengthen its policies to ensure that adequate supervision is provided and to ensure report statements are adequately supported. One way of doing this, in addition to strengthening supervisory review, would be to institute a process such as "referencing," which requires the verification of report statements to the working papers by an experienced auditor who has not worked on the audit.

In response to our recommendation, the OIG is developing a supervisory checklist which will include indexing requirements to ensure report statements are adequately supported. The list will be incorporated into the OIG policies in October 1987. In addition, the OIG will expand its quality assurance program to specifically address the adequacy of indexing during its October 1988 reviews. However, after taking these actions, if the adequacy of evidence problems continue, the OIG will implement an independent referencing process as we recommend. We believe the OIG is taking positive steps toward strengthening its supervisory review of report findings and establishing a mechanism to document this review; however, we continue to believe that independent verification of report

statements provides greater assurance that the statements are adequately supported.

In addition, to further strengthen its operations, the OIG should ensure working papers are clear and understandable. Working papers should be understandable without detailed supplementary oral explanations. OIG policy emphasizes the importance of working papers by stating that they are the basis on which the entire audit rests. The policy requires working papers to document audit objectives and scope, work performed, sources of information, audit results, and all other pertinent data. Supervisors are held responsible for ensuring that this policy is consistently applied.

However, we found that, in 7 of the 21 audits we reviewed, the working papers supporting major findings were not clear and understandable. For example, in one of the seven audits, some schedules were completed using codes, but the working papers contained no legend to explain the codes. To understand the working papers, we relied on oral explanations by the audit staff. In another audit, calculations necessary to the report message were not explained in the working papers, and we could not understand the calculations without help from the auditor-in-charge.

We also found that audit reports were not always cross-indexed to the supporting working papers. To illustrate, in one report, the OIG reported a \$2.2 million annual savings could be realized if its recommendation to eliminate a subsidy program was implemented. This figure was incorrectly cross-indexed to the supporting working papers, and neither we nor the OIG staff could initially find support for the figure. However, after discussing the report with OIG headquarters officials, their regional staff located support for this figure in the middle of an interview write-up. Without thorough and adequate indexing of reports, auditors lack a logical audit trail which impedes supervisory review of the report for sufficient or competent evidence.

We think the OIG should revise its policies and procedures to provide more precise guidance on how auditors can make their working papers clearer and more understandable. For example, the OIG policy on preparing working papers should illustrate proper working paper formats and require that the papers contain explanations for any calculations and cross-indexing to source documents. In response to our draft report, the OIG will provide more guidance on working paper preparation by placing greater emphasis on the supervisor's responsibilities in this area and developing a working paper checklist which will be incorporated into its

policies by October 1987. In addition, training will be provided to all new staff members and to any current staff member identified as needing additional training.

Reporting

The reporting standard³ requires that audit reports include statements on (1) audit scope and objectives, (2) adherence to generally accepted government auditing standards, (3) internal controls, (4) recommendations for corrective action, and (5) comments of agency officials. It also requires that reports be objective, clear, concise, and convincing.

We found the OIG satisfactorily complies with some areas of the reporting standard. For example, the OIG appropriately distributed all audit reports in our sample, and all the reports are available to the public by Freedom of Information Act requests. Also, all reports in our sample included a statement on compliance with generally accepted government auditing standards, and all but two included comments of agency officials. Additionally, in all but two reports, the OIG included recommendations, when appropriate, for resolving the identified problems.

However, while the OIG complies with certain areas of the standard, corrective action is needed in one area to satisfactorily comply with the standard. The OIG needs to ensure each audit report presents factual data to all readers in an objective, clear, concise, and convincing manner.

In 12 of 21 audits, the reports did not present all information in a manner that was objective, clear, concise, or convincing. To illustrate, one audit report contained agency comments as an attachment to the report. The comments presented several potentially valid responses to the OIG findings and listed a series of improvements which the agency made during the audit. In its report, the OIG acknowledged receiving the agency's comments but did not address them, modify its position, or comment on the validity of the listed improvements. As a result, the reader does not know what the OIG thinks of the comments or the improvements, or whether the improvements would eliminate the identified problems.

In another case, the OIG concluded that one Federal Aviation Administration region was receiving a fair return on its training investment for operations inspectors. This conclusion implies the auditors performed a

³Generally accepted government auditing standards contain standards for report form, distribution, timeliness, content, and presentation.

comprehensive review of training programs. However, the report primarily discusses only one factor that would be involved in such a review—retention rates for inspectors after they received training. To conclude that the region was receiving a fair return on its training investment, in our opinion, would require consideration of other factors. For example, we would have expected the OIG to evaluate such things as the quality, cost, and effectiveness of training. As a result, we believe the OIG's conclusion is not convincing.

Office directors and regional managers review audit reports prior to their final issuance to determine how well the report is written, whether a convincing case is presented, and whether reports follow OIG policies.⁴ We could not fully evaluate the thoroughness of these reviews because the reviewers do not use a checklist or guidelines that we could examine. However, we believe the results of our review of compliance with the reporting standard are serious enough to conclude that the OIG's efforts to ensure quality reporting need improvement.

We believe the reporting standard is of critical importance to audit quality because the OIG is judged, in large part, by the quality of its reports. Poor presentation can lessen a report's effectiveness regardless of the extent to which other standards are followed. Therefore, we believe the OIG needs to examine its quality control process in view of our work to ensure full compliance with the reporting standard.

In response to our draft report, the IG states he will reassess the OIG's audit report review evaluation function and make necessary changes to its policies by October 1987. In addition, the supervisory checklist being developed by the office will include critical reporting elements to ensure compliance with the reporting standards, and the Assistant Inspector General for Auditing and his deputy will provide more extensive reviews of the audit reports.

In addition, to further strengthen operations, the OIG should ensure audit reports (1) accurately reflect the audit's objectives and scope and (2) adequately describe the extent and results of internal control work performed.

Audit reports should include a description of the scope and the objectives of the audit. The statement of objectives should explain why the

⁴OIG policies require that the generally accepted government auditing standards for reporting be followed.

audit was made and state precisely what the report is to accomplish. This is essential to give the reader the proper perspective against which to consider report findings. Office of Inspector General policies currently require audit reports to state the purpose for performing the audit and describe the areas or functions covered by the audit as well as any limitations or qualifications affecting the review coverage. However, we found in six audits that the objectives and scope stated in the reports either did not accurately reflect the objectives and scope of the audit or were not adequately addressed in the report.

To illustrate, one report's objectives were to examine the FAA's system for formulating the National Plan of Integrated Airport Systems (NPIAS) and the relationship between the NPIAS and the National Airspace System Plan (NASP). Only limited work was done on the relationship between NPIAS and the NASP. However, the report did not explain that limited work was performed and how it affected the stated objective. We believe reporting scope and objectives that are broader than the work performed can mislead the reader concerning the audit findings and conclusions presented.

It is important that the objectives and the scope of the audit be stated precisely to clearly tell the reader what aspects of the program were assessed and what the audit was intended to find. Every effort should be made to avoid any misunderstanding by the reader concerning the assignment's objectives. If the actual scope or objectives of the work performed change during the course of the audit, the working papers should document the reasons for any change and the report should reflect the revised scope and objectives. In addition, the report should adequately address each audit objective and provide enough information to demonstrate how the objective was met. We think the OIG should review its policies on reporting to ensure audit reports accurately reflect the audit's objectives and scope and that the objectives are adequately addressed. In response to our draft report, the OIG has taken several steps to address these problems, including issuing a memorandum emphasizing the need to monitor and improve these areas of reporting and a planned revision to OIG policies to ensure that the audit objectives and scope are clearly defined.

When reporting on their review of internal control systems, auditors should ensure that their audit reports clearly describe the internal control systems used in determining the scope of their audit work and any material weaknesses in the systems that are significant in relation to the audit objective.

Of the 21 audits we reviewed, 17 had objectives that may have required a study and evaluation of internal control systems. However, the extent or results of these evaluations were not always accurately reported. For example, reports did not always adequately describe the nature and extent of the internal control work or contain conclusions on internal controls which were supported by evidence in the working papers.

To illustrate, an objective of one audit was to determine if controls were adequate to safeguard against unnecessary year-end obligations. The audit report concluded that year-end obligations were controlled in a satisfactory manner. However, the report did not provide any information on the internal control work performed. During our detailed review of the working papers, we found the OIG staff performed only limited work on internal controls which would not have allowed them to reach this broad a conclusion. It is important that audit reports accurately reflect the extent to which internal controls were reviewed. Adequate controls provide assurance to management that program objectives are carried out and inaccurate reporting on controls gives the false impression that programs are adequately safeguarded although problems may exist.

OIG policies did not provide adequate guidance on reporting the extent of internal control testing and the related conclusions during the time period of our audit sample. The policies were limited to a requirement for a statement assessing the control systems pertinent to the activity under review. However, since that time the OIG has revised its reporting policies to require a description of internal control work as part of the reported scope and the highlighting of internal control weaknesses in the report. In addition, the OIG plans further revisions to its policies on internal controls.

Supervision

The supervision standard places upon the audit organization the responsibility for seeing that staff receive appropriate guidance in performing their work to ensure high quality work and effective on-the-job training. The most effective way to ensure the quality and to expedite the progress on an assignment is by exercising proper supervision from the start of the planning to completion of the report. Supervision is particularly important for ensuring audit quality, and the requirement that supervisors document their review of the audit work provides greater assurance that they are fulfilling their responsibilities.

Supervisory review should determine whether (1) conformance with audit standards is obtained, (2) audit plans are followed, unless deviation is justified and authorized, (3) working papers adequately support findings and conclusions and provide sufficient data to prepare a meaningful report, and (4) the audit objectives are met. Supervisory reviews should be documented and retained.

Supervision is important because it adds seasoned judgment to the work done by less experienced staff and provides them important on-the-job training. A lack of satisfactory compliance with areas of this standard can result in inadequate audit work and unsupported report statements.

We found the OIG complies with some areas of this standard. For example, in all 21 sampled audits, the supervisors provided input in planning the audits. Also, for 17 of the 21 audits, supervisors assigned work to staff members commensurate with their abilities.

However, while the OIG complies with certain areas of this standard, corrective action is needed in two others to satisfactorily comply with the standard. First, the OIG needs to better ensure that supervisors monitor adherence to audit plans and audit objectives by documenting these reviews. Second, the OIG needs to better ensure that supervisors review working papers to ensure findings and conclusions contained in the audit reports are adequately supported by documenting these reviews. In 10 of 21 audits, the OIG did not comply with the supervision standard in at least one of these areas.

In 5 of 21 audits, there was lack of adequate documentation that supervisors monitored adherence to the audit plans. To illustrate, a major objective in one audit was to evaluate the adequacy of internal controls. The audit plan clearly set out this objective and contained a series of audit procedures to evaluate controls. While the supervisor reviewed the audit work that was performed, he did not ensure that the audit procedures for evaluating the controls set out in the audit plan were completed. The audit procedures to evaluate controls were not performed, and, as a result, a major objective of this audit was not met.

In 7 of 21 audits, the supervisor did not adequately document whether the working papers supported report findings. To illustrate, on one audit, we found no documentation of supervisory review. The supervisor did not sign the working papers and no review notes were evident. The audit staff told us that the supervisor did review the report. However, this review was more editorial in nature, looking mainly at the

style and grammar of the report rather than ensuring working papers adequately supported report statements, and even this review was not documented.

As discussed under the reporting standard, we believe certain aspects of the OIG's report review process need improvement. Supervisors have a responsibility to ensure that audits are performed in compliance with standards, and top management should ensure that supervisors fulfill this responsibility. An important indicator that supervisors are fulfilling their responsibilities is the requirement to document their review of the audit work.

While OIG policies require supervisors to document their review of all aspects of the audit work, we found that some supervisors believed such documentation was optional. Some OIG supervisors seemed unaware of the extent to which documentation was required for specific areas of the standard such as monitoring adherence to the audit plan and ensuring report statements are adequately supported. Since OIG policies make supervisors responsible for the quality of the audit work, we believe it is important that all OIG staff be made aware of the current policies on supervision.

As a result of our draft report, the Assistant Inspector General for Auditing sent a memo dated June 3, 1987, to all audit offices instructing them to review our report's observations on supervision and to fully adhere to OIG policies. In addition, the supervisory checklist under development by the OIG should further strengthen and enforce the supervisory review process.

Quality Assurance

This standard requires that the OIG establish and maintain a quality assurance program. The standard defines quality assurance as an evaluative effort conducted by reviewers external to the unit being reviewed to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively. The standard states that the program should provide reasonable assurance that this is the case.

The OIG does not satisfactorily comply with this standard. Although the OIG has established a quality assurance program consisting of evaluations of OIG units and issued audit reports, we believe the evaluations are not comprehensive enough to provide reasonable assurance of

adherence to the standards for performing audits. Specifically, the evaluations of audit activities are too limited to enable the OIG to detect and correct the kinds of noncompliance we found regarding the evidence, reporting, and supervision standards. Although the OIG satisfactorily complies with most audit standards we tested, we believe satisfactory compliance with the standards on evidence, reporting, and supervision is especially important for ensuring audit quality.

We reviewed the evaluation reports on nine audit units prepared by the OIG since 1983, examined guidelines used to perform the evaluations, and discussed the scope and extent of the evaluations with the person who performed them. We found that the reports primarily discussed whether the units' staff had adequately prepared working papers. The reports generally did not discuss issues where we found problems in our review, such as whether the working papers contained sufficient and competent evidence to support audit report statements and whether the reports were clear, objective, and convincing.

In addition, the evaluation guidelines do not contain steps to assess these areas. The person who conducted the evaluations told us that since his reviews primarily involve examining working papers, he rarely questions the audit staff about their work. In a December 1985 assessment of the self-evaluation program, OIG staff reported that the evaluations of audit activities "focused primarily on determining the adequacy of audit working papers" and recommended that the program be expanded to include reviewing such areas as audit performance, independence, reporting, supervision, and follow-up.

We also discussed the OIG's evaluations of issued audit reports with the staff responsible for conducting these evaluations. They told us they read the reports to see if they adhere to OIG policies and procedures in such areas as report format and presentation and to see if dollar findings were correctly entered in the OIG's management information system. However, the evaluations do not include a review of working papers to determine whether they contain evidence for report statements and findings. We were unable to further evaluate the thoroughness of these reviews because the reviewers do not document their review results. Also, they do not use a checklist or guidelines we could examine.

The OIG needs to expand the scope of its evaluations of OIG units and issued audit reports to satisfactorily comply with the quality assurance standard. As a minimum, the evaluations need to address such issues as

whether working papers contain evidence to support audit report findings and statements, whether audit reports are clear and convincing, and whether staff are properly supervised. The evaluations should include enough tests of compliance to provide reasonable assurance of adherence to the standards for performing audits. Currently, the OIG is reassessing its quality assurance efforts. We believe the OIG should consider the results of our review in its reassessment.

In response to our draft report, the IG informed us the OIG's quality assurance program is being restructured and should be incorporated into its policies by October 1987. The proposed OIG program is a three-part process involving the staff, first-and second-level supervisors, and the assistant inspectors general for investigation, auditing, and policy, planning, and resources. We agree that all staff, regardless of level, are responsible for ensuring quality in the OIG's work and reports. However, the PCIE standards require the quality assurance program to be an evaluative effort conducted by reviewers external to the unit being reviewed to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively. The OIG's proposed restructuring of its quality assurance program includes this as one of its three parts, but we cannot determine from the IG's comments whether this function is being expanded to be comprehensive enough to provide reasonable assurance of adherence to audit standards. We believe that to fully comply with this standard, the current OIG program should be expanded as discussed earlier in this section.

In addition, the OIG has not implemented its policy on following up on evaluation report recommendations. The policy requires that a system be established to track the recommendations. The system would assign each recommendation a control number and establish target dates to implement corrective actions. Headquarters audit managers share responsibility with field managers for implementing these recommendations. The headquarters audit managers told us they determine if the recommendations have been implemented when they visit OIG field units, but they do not always document whether the recommendations have been implemented. We question whether these managers should be responsible for both implementing the recommendations and following up to see if they have been implemented.

In addition, the evaluation team members told us they will also determine if the recommendations have been implemented but not until future evaluations of the units. However, since the OIG plans to conduct

evaluations only once every 4 years, their follow-up will not be timely. To provide greater assurance that evaluation report recommendations are implemented in a timely and effective manner, we believe the OIG should implement its policy calling for the establishment of a system to track the recommendations. The OIG agrees that a follow-up mechanism should exist and will address this as part of the reassessment of its quality assurance program discussed earlier.

Assessment of Other Audit Areas

In addition to assessing the extent of compliance with standards, we reviewed (1) how the OIG tracks management's implementation of audit recommendations and (2) the accuracy and presentation of audit-related information in two semiannual reports.⁷ We found that the OIG does not track all recommendations through implementation of corrective action and, as a result, may be losing the benefit of some of its audit work. We also found the semiannual reports did not provide explanations for differences in dollar findings shown in the reports and those shown in the corresponding audit reports.

Implementation of Audit Recommendations

An audit organization's accomplishments can be measured largely by the impact of its recommendations. Feedback on whether the recommendations are valid and result in significant change can aid the organization in planning its work and in assessing whether it is achieving its full potential in improving governmental accountability and effectiveness. Such feedback can also aid in identifying instances where agency managers have not taken appropriate action on recommendations.

The OIG currently tracks all recommendations to the point of mutual agreement between the OIG and agency management on actions to be taken. This complies with the Office of Management and Budget policy as contained in circular A-50, "Audit Follow-Up." In addition, the OIG tracks recommendations with potential savings over \$100,000 past this point to the point of implementation, and it performs some audits to follow up on prior audits and to review agency management's systems to track audit recommendations. However, the OIG does not fully track recommendations with potential savings under \$100,000 or procedural recommendations which have no potential monetary savings but may result in significant change to operating practices. As a result, we believe the OIG may be losing the benefit of some of its most important work.

⁷We reviewed the semiannual reports for the periods ending September 30, 1985, and March 31, 1986.

To illustrate, a 1984 OIG audit of certain Federal Aviation Administration facilities found major security weaknesses that “could result in serious safety hazards” and recommended that the FAA improve physical security and backup communication systems. The FAA responded that it would evaluate the weaknesses and establish plans to correct them.

Because this recommendation was essentially procedural, the OIG closed the recommendation—i.e., stopped tracking it—when the FAA responded that it would consider several security improvements. According to OIG officials, they expected the FAA to improve security at existing as well as at future FAA facilities. However, the FAA decided not to make improvements at existing facilities. Since the OIG stopped tracking the recommendation and did not perform a follow-up audit, it was unaware that the FAA had not taken expected action on the recommendation. While the FAA may have had justification for not implementing the recommendation, the OIG was unaware of this and still considered the recommendation to be valid.

We believe the OIG should be aware of such inaction so it can (1) elevate such matters to a higher authority for consideration and (2) report to the Congress and others on the matter. A system which tracks all significant recommendations through the implementation of corrective action is an effective mechanism to identify and report disagreements. Without that ability, the OIG cannot fully ensure that agency managers will respond appropriately to audit recommendations. Thus, the OIG cannot ensure that it is achieving its maximum potential impact in improving the federal government’s effectiveness and accountability.

Accordingly, we believe that the OIG should (1) track all of its significant recommendations through implementation and (2) take prompt and appropriate action to resolve any recommendation that the agency managers do not fully implement. As a result of our draft report, the OIG in conjunction with Transportation’s Assistant Secretary of Administration, who is the agency’s designated follow-up official, will reexamine the functioning of the follow-up process. In addition, procedures will be strengthened to ensure that significant recommendations are tracked through implementation and that lack of full implementation is brought to the OIG’s attention for reevaluation or resolution.

Semiannual Reports

The dollar findings in the OIG’s semiannual reports sometimes differ from corresponding dollar figures in audit reports. Since the semiannual reports do not explain why the dollar figures are different from those

presented in the audit reports, OIG report users do not know which figure is correct and may question the audit reports' accuracy and reliability. To avoid such misunderstanding, we believe the semiannual reports need to explain the reasons for any differences.

We reviewed 20 audit reports to see if their dollar findings were accurately summarized in semiannual reports and found discrepancies in seven cases. To illustrate, one audit that assessed the use of mass transit funds to subsidize school bus services reported that \$410 million was needed to replace the bus fleet. However, the semiannual report stated that only \$249 million was needed. An OIG official explained that the figure was reduced by \$161 million because the OIG reconsidered the number and age of the buses. We believe the OIG was justified in making this adjustment because more current data were available when the semiannual report was prepared. We also believe the adjustments in the other six cases where we found discrepancies were justified for the same reason.

To prevent any misunderstanding about the accuracy of the figures, we believe the semiannual reports should explain the basis for each adjustment. Such explanation should answer any questions report users may have about changes in the OIG's dollar findings. In his response to our draft report, the IG stated that beginning in the next semiannual report, the reasons for differences between dollar figures shown in audit reports and those in the semiannual report will be explained if such differences are considered to be misleading to the reader.

Additional Details on Our Objectives, Scope, and Methodology

Our principal review objectives were to determine whether the Transportation OIG conducts audits in accordance with generally accepted government auditing standards and other professional standards, and conducts investigations in accordance with professional standards adopted by the President's Council on Integrity and Efficiency (PCIE), whose membership includes the statutory inspectors general. Our approach involved evaluating the OIG's controls, including written policies and procedures, to ensure adherence to the standards; reviewing a sample of reports and working paper files for recently completed assignments; and reviewing, testing, and evaluating other evidence of OIG compliance with the standards.

In addition to our principal review objectives, we also examined how the OIG tracks management's implementation of audit recommendations, the scope of the OIG's audit coverage, and the accuracy and presentation of information in the OIG's semiannual reports to the Congress.

We measured the OIG's audit function against generally accepted government auditing standards, which are contained in the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, revised in 1981. We measured the OIG's investigative function against the PCIE's Quality Standards for Federal Offices of Inspector General, issued in January 1986, and the PCIE's Interim Professional Standards for Investigations, adopted in April 1985, for use in conjunction with the quality standards. We also used the PCIE quality standards as a basis for evaluating quality assurance and organizational planning in the OIG audit function. In addition, we evaluated the OIG's compliance with Office of Management and Budget circular A-73, "Audit of Federal Operations and Programs," which provides OIGs guidance on annual audit planning. During our review we used the term "standard" to refer to either an individual standard or, in some cases, to a combination of similar standards or OMB policy directives. See appendixes III and IV for a summary of the standards used to assess the audit and investigation functions.

We assessed compliance on a standard-by-standard basis for the OIG audit and investigation functions. We did not necessarily test every area of every standard. Accordingly, we cannot be certain our review disclosed all material weaknesses in the OIG's operations; however, all

*A specific requirement contained in a professional standard, such as requiring sufficient evidence to support report standards—that is evidence which is factual, adequate, and convincing enough to lead others to the same conclusion as the auditor.

**Appendix II
Additional Details on Our Objectives, Scope,
and Methodology**

material weaknesses that came to our attention are discussed in the report. We did not redo any of the investigations or audits and thus cannot conclude whether any OIG reports contained invalid findings, conclusions, or recommendations.

Our review approach for this report is essentially the same one we used in our earlier "quality assessment reviews" at the OIGs at the departments of Commerce and Agriculture, and at the Environmental Protection Agency and the General Services Administration.⁹ In developing the approach for the first review, we discussed the review methodology and criteria with the various statutory inspectors general, who generally agreed with our approach. In addition, we requested comments on our review guidelines from the inspectors general, the American Institute of Certified Public Accountants, selected state auditors, intergovernmental audit forums, and public accounting firms. Most respondents felt that the guidelines were very thorough and comprehensive. (For a more detailed discussion on how we developed our review approach, refer to our report on the Commerce OIG.)

As in our earlier reviews, we selected a sample of audits and investigations to review. For the investigation sample, we obtained an OIG-generated list of 127 cases completed between July 1, 1985, through March 31, 1986. We verified its accuracy by comparing this list with other OIG records maintained on each case. We also identified the OIG office responsible for each case. For the Chicago, San Francisco, and Washington, D.C., offices, we classified the investigations as large (70 or more staff days), medium (21 to 69 staff days), and small (20 staff days or fewer). Judgmentally, we determined how many cases to select for review from each office and classification, and we selected 15 investigations using random numbers. We evaluated each selected investigation against key areas of the investigation standards.

For the audit sample, we obtained an OIG-generated list of audit reports of 289 audits issued between July 1, 1985, through March 31, 1986, and

⁹Compliance With Professional Standards by the Commerce Inspector General (GAO AFMD-85-57, August 12, 1985).

Inspectors General, Compliance With Professional Standards by the Department of Agriculture Inspector General (GAO AFMD-86-41, September 30, 1986).

Inspectors General, Compliance With Professional Standards by the EPA Inspector General (GAO AFMD-86-43, September 30, 1986).

Inspectors General, Compliance With Professional Standards by the GSA Inspector General (GAO AFMD-87-22, July 20, 1987).

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we verified its accuracy by comparing the list with reports filed in an OIG report library. Also, we identified the OIG regional office that was responsible for each report. For the Chicago, Baltimore (Boston suboffice), and San Francisco regional offices, we classified audits as large (over 151 staff days), medium (51 to 150 staff days), and small (50 staff days or fewer). Judgmentally, we determined how many audits to select for review from each regional office and classification, and we selected 21 audits using random numbers. We evaluated each selected audit against key areas of the auditing standards.

We also reviewed the OIG's controls for ensuring adherence to the standards. This included reviewing written policies and procedures for implementing the standards and the systems designed for ensuring adherence.

In addition, we performed other work to evaluate the OIG's adherence to standards. For example, we sampled hotline calls to determine if the calls were appropriately screened. Also, we reviewed the OIG's annual audit planning process to ascertain if the OIG complied with OMB circular A-73, "Audit of Federal Operations and Programs," and PCIE quality standards.

Our work was primarily done in the OIG's headquarters in Washington, D.C., and three of the OIG's seven regional offices located in Chicago, Baltimore (Boston suboffice), and San Francisco.

Investigation Standards and Our Observations of Compliance With Each Standard

This appendix summarizes the standards we used to review the OIG's investigation function and our observations of compliance with each standard.

Standards	PCIE quality standards^a	PCIE investigation standards^b	Compliance
Staff qualifications	Assuring staff qualifications	Qualifications	Yes
Independence	Maintaining independence	Independence	Yes
Planning	Planning	Planning	Yes
Due professional care	No standard	Due professional care Execution	Yes
Directing and controlling	Directing and controlling	No standard	Yes
Coordination	Coordinating	No standard	Yes
Reporting	Reporting	Reporting	Yes
Preserving confidentiality	Preserving confidentiality	No standard	Yes
Screening allegations	Receiving, controlling, and screening allegations	Information management	Yes
Information management	No standard	Information management	Yes
Quality assurance	Maintaining quality assurance	No standard	Yes

^aPCIE Quality Standards for Federal Offices of Inspector General

^bPCIE Interim Professional Standards for Investigations

Audit Standards and Our Observations of Compliance With Each Standard

This appendix summarizes the standards we used to review the OIG's audit function and our observations of compliance with each standard.

Standards	Comptroller General audit standards ^a	Other standards	Compliance
Staff qualifications	Qualifications		Yes
Independence	Independence Scope impairments		Yes
Individual job planning	Planning		Yes
Annual audit planning	No standard	Planning ^b	Yes
Supervision	Supervision Due professional care		No ^c
Legal and regulatory requirements	Legal and regulatory requirements		Yes
Internal controls	Internal controls Auditing computer-based systems Due professional care		Yes
Evidence	Evidence Working papers Due professional care		No ^d
Fraud, abuse, and illegal acts	Fraud, abuse, and illegal acts		Yes
Reporting	Reporting		No ^e
Audit follow-up	Due professional care		Yes
Quality assurance	No standard	Quality assurance ^f	No

^aComptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions

^bOMB circular A-73 "Audit of Federal Operations and Programs"

^cThe OIG does not satisfactorily comply with the supervision standard in two areas. (See page 17.) We believe the OIG satisfactorily complies with the other areas of the supervision standard.

^dThe OIG does not satisfactorily comply with the evidence standard in two areas. (See page 10.) We believe the OIG satisfactorily complies with the other areas of the evidence standard.

^eThe OIG does not satisfactorily comply with the reporting standard in one area. (See page 14.) We believe the OIG satisfactorily complies with the other areas of the reporting standard.

^fPCIE Quality Standards for Federal Offices of Inspector General

Comments From the Department of Transportation

Note: GAO comments supplementing those in the report text appear at the end of this appendix



U.S. Department of Transportation
Office of the Secretary of Transportation

The Inspector General

Office of Inspector General
Washington, D.C. 20591

JUN 30 1987

Mr. Frederick D. Wolf
Director, Accounting and Financial Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Wolf:

We have reviewed the General Accounting Office (GAO) draft report, "Compliance with Professional Standards by Transportation's Inspector General." The Office of Inspector General (OIG) appreciates GAO's efforts to help strengthen the OIG operations by improving compliance with the generally accepted Government auditing standards. We also appreciate the opportunity to comment on the findings and recommendations contained in the report.

The GAO report properly recognizes that no absolute measurement criteria exists to determine compliance with standards, and bases the reports findings and recommendations on the professional judgment of the audit team. In many instances we have substantial disagreement with the specific deficiencies cited in support of the GAO determination as to our lack of compliance with four of the audit standards. However, rather than becoming enmeshed in a point-by-point discussion of our disagreement, and recognizing that we accept the audit teams judgment where they find us in compliance with the standards, we have considered the reports recommendations as positive, helpful steps in improving OIG operations. Most of the recommendations in the draft report are to expand, develop, or clarify policy. I believe an equally important aspect is to assure that policy is properly implemented. Our proposed corrective actions will involve both policy revisions and increased emphasis on proper policy implementation. Our efforts will center on an expanded quality assurance program and increased use of supervisory checklists. We have begun to make the changes.

Our comments and planned actions on each of the reports recommendations are contained in the enclosure. Our professional disagreements notwithstanding, we appreciate the work of the audit team and believe the audit results will be helpful in assuring full compliance with all our professional standards.

Sincerely,

John W. Melchner
Inspector General

Enclosures

Appendix V
Comments From the Department
of Transportation

Enclosure 1
Page 1

Office of Inspector General
Response to Recommendations
GAO Draft Report "Compliance With Professional
Standards by Transportation's Inspector General"

GAO Recommendation

1. Expand OIG policies on evidence to define the various types of evidence, such as documentary and analytical, and provide guidance on their appropriate use.

Comments

The OIG Operating Procedures Manual (OPM) provides extensive policy guidance on evidence. Part II, Chapter 1 of the OPM requires that the audit work comply with standards established by the Comptroller General of the United States for Audits of Government Organizations, Programs, Activities, and Functions. These standards are referred to as Generally Accepted Government Auditing Standards (GAGAS). Part II, Chapter 1 of the OPM further states that all audit managers, supervisors, and auditors are expected to know the GAGAS and consistently apply them in performing all audit work. This OPM chapter states that the nature and extent of audit evidence to be obtained should be in accordance with the GAGAS standards and the guidance included as Appendix B-1 of the manual. These standards provide definitions for the various types of audit evidence. In addition, OPM Part II, Chapter 2, instructs the audit supervisor to ensure that evidence is fully developed and that working papers adequately support findings and conclusions.

Proposed Corrective Action

We will expand Part II Chapter 1 of the OPM to include the GAGAS definitions in the chapter itself in addition to the Appendix. We will also provide guidance on the appropriate use of each kind of evidence, as well as some examples of appropriate use. A draft chapter change will be completed by July 31, 1987 and staffed during August and September 1987.

We will improve the quality of evidence by tightening procedures involving operating level supervision and review. This will be achieved primarily by implementing the use of a supervisory checklist. A draft copy of the checklist is included as Enclosure 2. The checklist will be incorporated into the OPM when finalized.

Both of the above actions will be finalized and incorporated into the OPM during October 1987.

See comment 1

See comment 2.

GAO Recommendation

2. Develop and implement a process, such as referencing, to help ensure the adequacy of evidence.

Comments

The OIG policy on referencing is contained in OPM Part II, Chapter 8 which states the following:

- a. Complete and accurate referencing in the working papers is essential to the completion of the audit. An auditor should remember that the relationship of one set of facts to another may not be known to the next person who uses a working paper, and the relationship may not be as clear in his own mind when he again uses the paper. Referencing is essential to adequate analysis and interpretation of audit results. It facilitates reviews and preparation of the report, and decreases the probability of a defective audit report.
- b. Generally, reference should be made to supporting or related papers or documents when there is a possibility that the reference will be needed. The following should be cross-referenced:
 - (1) All facts, observations, and conclusions in the report with the summary or basic working papers, as appropriate.
 - (2) The audit guidelines and audit program with the basic working papers.
 - (3) The summary working papers with the basic working papers.
 - (4) The basic working papers as they relate to each other.

The responsibility for ensuring adequate referencing is that of the supervisor, which is set forth in OPM Part II, Chapter 2.

Proposed Corrective Action

We will include referencing requirements in the supervisory checklist (Enclosure 2) and expand our Quality Assurance Program to specifically address the adequacy of referencing. Our preferred approach is to build adequate referencing into our workpaper and report preparation process rather than provide for independent review as GAO would prefer. However, if our Quality Assurance Program does show continued problems with the adequacy of evidence, we will adopt the GAO recommended approach of an independent referencing process.

The checklist will be finalized in October 1987 and we will make a 1-year review of referencing problems found as a result of quality assurance reviews during October 1988.

See comment 3.

GAO Recommendation

3. Examine the OIG's process for reviewing audit reports to determine whether it is functioning in a manner which ensures reasonable assurance of compliance with the reporting standard.

Proposed Corrective Action

Since March 1987, the Assistant Inspector General for Auditing (AIGA) and the Deputy AIGA are providing more extensive reviews of the audit reports. Also the OIG will reassess its audit report review evaluation process as set forth in OPM Part I, Chapter 19. We will also implement a supervisory checklist that will be applicable to all reports. Adherence to the critical elements identified in the checklist (Enclosure 2) should assure compliance with reporting standards. This reassessment and final checklist will be completed by September 30, 1987 and necessary changes to the OPM made in October 1987.

See comment 4.

GAO Recommendation

4. Enforce OIG policies which require supervisors to fully review all of the audit work performed, document their supervisory review, and educate the staff on these policies.

Proposed Corrective Action

As a result of the GAO draft report, a memorandum dated June 3, 1987, from the AIGA was sent to all audit offices instructing them to review the observations set forth in the report and to fully adhere to prescribed OIG policies. In addition, the audit review checklist (Enclosure 2) will enforce and strengthen the supervisory review process. The audit review checklist will be finalized and included in the OPM in October 1987.

See comment 5.

GAO Recommendation

5. Expand the scope of the OIG quality assurance program to provide reasonable assurance of adherence to the standards for performing audits, and conduct more frequent reviews.

Comments

The Quality Assurance Program at the OIG is a three part process involving the staff, first- and second-level supervisors, and the Assistant Inspectors General. It's based on the concept that:

Quality assurance steps are taken as part of the day-to-day progress of the audit and investigation. This would include the work of the staff as well as the first- and second-level supervisors engaged in the audit or investigation.

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- AIGA and the Assistant Inspector General for Investigations (AIGI) perform quality assurance testing as part of the continuing oversight of their operations.
- Assistant Inspector General for Policy, Planning, and Resources (AIGPPR) conducts independent quality assurance reviews led by qualified auditors and investigators on that staff and external to AIGA and AIGI.

The philosophy of this approach is to build the quality in at the lowest levels as the primary goal with secondary and tertiary verification to assure it is working.

Proposed Corrective Action

The restructured Quality Assurance Program is being drafted now, and a draft will be available by August 15, 1987. It will be reviewed and tested during September 1987 and incorporated into the OPM by October 1987.

GAO Recommendation

6. Revise OIG policies and procedures to provide more precise guidance on preparing clear and understandable working papers.

Comments

OPM Part II, Chapter 7 and 8 contain criteria similar to that mentioned in the GAO draft report. Also, the GAGAS are contained in Appendix B-1 of the OPM to provide guidance for working paper preparation.

Proposed Corrective Action

We believe that the guidance on workpaper preparation in OPM Part II, Chapter 8 is adequate and that if properly implemented should result in clear and understandable working papers. We will stress everyone's responsibilities to ensure that the working papers are properly prepared to our supervisory audit staff. Greater supervisory emphasis, together with implementation of a workpaper checklist, will improve the quality of the working papers. Training in working paper preparation will be provided to all new staff members, to more senior auditors who need additional training in these skills, and to auditors who are new to the OIG organization. This will be a continuing process.

GAO Recommendation

7. Clarify OIG policies on reporting to ensure that (1) audit reports accurately reflect the audit's objectives and scope, and (2) that the objectives are adequately addressed.

See comment 6.

See comment 7.

Appendix V
Comments From the Department
of Transportation

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Page 5

Comments

We agree that the described objectives and scope of our audits have not been clear on occasions.

Proposed Corrective Action

A concerted effort has been made within the past few months to more precisely define the audit objectives, to ensure that the objectives are adequately addressed, and that the scope of the audit is specified. The AIGA issued a memorandum on April 7, 1987 (Enclosure 3), which stressed the need for monitoring and improving these areas. Furthermore, we adopted new policies to reannounce audit objectives at the end of the survey phase if different from those originally announced. Also, as a part of our recent revised audit planning process we have required that the audit objectives be identified more clearly during the planning stages of the audit. Our policy guidance will be revised to reflect the above changes in our processes by October 1987.

GAO Recommendation

8. Revise OIG policies on reporting to (1) require a description of internal control work as part of the reported scope and objectives, and (2) describe the basis of any conclusions reached on controls.

Comments

The OIG policy requires a description of internal control work as part of the reported scope. OPM Part II Chapters 10-1 and 10-11 on report content provides that the scope section should contain a statement identifying the specific internal controls that were evaluated. Where applicable, the section should indicate the extent that the internal control system was relied upon to determine the scope of work. If the internal control system was not evaluated, the reasons for this action should be stated.

For audit reports issued after January 1, 1987, OIG policy provides for highlighting internal controls weaknesses in audit report transmittals (long-form reports) and the Findings and Recommendations section (short-form reports). This was done to assist DOT management in the implementation of the Federal Managers' Financial Integrity Act (FMFIA). To further assist management in this effort, OIG policy is being revised to report on why the Department's FMFIA evaluation process did not prevent or detect the internal control weaknesses reported.

Proposed Corrective Action

The AIGPPR has begun to conduct quarterly reviews of audit reports to determine adherence to the new policy. The quality reviews will continue until there is adherence to the new policy.

GAO Recommendation

9. Implement OIG policy on following up on evaluation report recommendations.

Comments

The OIG agrees that improvements are needed in this area. A followup mechanism should exist outside the audit area.

Proposed Corrective Action

This area will be addressed as part of the reassessment effort of the Quality Assurance Program discussed in recommendation number 5. Action will be completed in October 1987.

See comment 11

GAO Recommendation

10. Track all of its significant recommendations through implementation and take prompt and appropriate action to resolve any recommendation that the agency managers do not fully implement.

Comments

DOT Order 8000.1B assigns audit followup responsibility to the Assistant Secretary for Administration (ASA).

The followup system activities of the ASA were not reviewed as part of this audit and we believe unilateral implementation of this recommendation by the OIG could create an unnecessary redundancy in the DOT followup process. Nevertheless, we agree that there is a need for better exchange of information between the ASA and the OIG. As a first move toward this objective, we will initiate procedural changes to formally transmit all reports to the ASA for either follow up or resolution action and request that we be advised whenever management reverses its decision to implement a concurred-in recommendation.

Proposed Corrective Action

In conjunction with the ASA, we will reexamine the functioning of the followup process and strengthen procedures to assure that significant recommendations are tracked through implementation, and that lack of full implementation is brought to OIG attention for reevaluation or resolution.

See comment 12.

GAO Recommendation

11. Explain in the semiannual report why some of the dollar figures reported differ from those in the corresponding audit reports.

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Comments

Dollar amounts included in semiannual reports may differ from those included in the corresponding audit reports because more accurate information may be available when the semiannual report is issued up to 6 months later.

Proposed Corrective Action

Commencing in our next Semiannual Report, the reasons for differences between dollar figures shown in the audit reports and those in the Semiannual Report will be explained if such differences would be considered misleading to the reader.

See comment 13

The following are GAO's comments on the Department of Transportation inspector general's letter dated June 30, 1987.

GAO Comments

1. Report revised to incorporate OIG's corrective actions. See page 12.
2. Enclosure 2 is not included in this appendix.
3. The term "referencing" as used in the IG's comments and in the OIG policies is synonymous with the term "indexing" used throughout the report. Referencing is defined in the report as the verification of report statements to the working papers by an experienced auditor who has not worked on the audit. Report revised to incorporate OIG's corrective action. See page 12.
4. Report revised to incorporate OIG's corrective actions. See page 15.
5. Report revised to incorporate OIG's corrective actions. See page 19.
6. Discussed on page 21.
7. Report revised to incorporate OIG's corrective actions. See page 13.
8. Report revised to incorporate OIG's corrective actions. See page 16.
9. Enclosure 3 is not included in this appendix.
10. We are dropping this recommendation because the OIG provided additional documentation showing revisions to its reporting policies which require a description of internal control work as part of the reported scope and the highlighting of internal control weaknesses in the report. We believe the policy revisions address the concerns we identified during our fieldwork; however, we performed no tests to ensure the policies are being implemented adequately.
11. Report revised to incorporate OIG's corrective action. See page 22.
12. Report revised to incorporate OIG's corrective action. See page 23.
13. Report revised to incorporate OIG's corrective action. See page 24.

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