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Source of document: FOIA Request
USDA, Office of Inspector General
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Washington, DC 20250
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FOIA.gov

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OFFICE OF INSPECTOR GENERAL
United States Department of Agriculture



September 30, 2022

Subject: Log No. 17-00018

This letter responds to your December 28, 2016, Freedom of Information Act (FOIA)¹ request to the Department of Agriculture (USDA) Office of Inspector General (OIG). You requested "a digital/electronic copy of the USDA IG Manual."

Shortly after receiving this request, we conducted a search of USDA OIG records based upon the information provided, and found no records that are responsive to your request. At that time, it was conveyed to FOIA staff that OIG does not have a digital/electronic or a hard copy of the USDA IG Manual. Instead, FOIA staff was informed that the various OIG directives are considered to be the IG Manual.

Accordingly, we have processed all of the Investigative and Audit Directives, as it is our understanding that these Directives previously consisted of the hardcopy version of the IG Manual. Please note that we have not processed the exhibits for these Directives. If you would like copies of the exhibits, please contact us as FOIA.STAFF@oig.usda.gov.

Regarding the Audit Directives, we are enclosing 172 pages of responsive records. Pursuant to FOIA, certain information has been redacted and withheld as it is exempt from release. Specifically, in accordance with 5 U.S.C. §552(b)(6), the names, signatures, initials, and other identifying information of individuals were withheld because release of this information could reasonably be expected to constitute an unwarranted invasion of personal privacy. Exemption 6 protects information about individuals in personnel and medical files and similar files when the disclosure of such information would constitute a clearly unwarranted invasion of personal privacy. Additionally, content which would disclose guidelines for law enforcement investigations or prosecutions if such disclosure could reasonably be expected to risk circumvention of the law was withheld under 5 U.S.C. §552(b)(7)(E).

For OIG's Investigative Directives, we have withheld 239 pages under 5 U.S.C. § 552(b)(7)(E). We have enclosed an explanatory sheet of FOIA exemption explanations.

Additionally, we have enclosed a list of the remaining Directives not consisting of the Audit and

¹ 5 U.S.C. § 552.

Investigative Directives processed for this request. If you would like to request copies of these other Directives, please contact us as FOIA.STAFF@oig.usda.gov.

You have the right to appeal² this decision by OIG by writing to the Inspector General, U.S. Department of Agriculture, 1400 Independence Avenue SW., Whitten Building, Suite 441-E, Washington, D.C. 20250-2308. Appeals must be postmarked or transmitted by email no later than 90 calendar days from the date of the adverse determination. The outside of the envelope should be clearly marked "FOIA APPEAL."

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of the FOIA. *See* 5 U.S.C. 552(c) (2006 & Supp. IV 2010). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all our requesters and should not be taken as an indication that excluded records do, or do not, exist.

You have the right to seek the assistance of the OIG FOIA Public Liaison. You can also seek dispute resolution services from the OIG FOIA Public Liaison or the Office of Government Information Services (OGIS).

As part of the 2007 FOIA amendments, OGIS was created to offer mediation services to resolve disputes between FOIA requesters and Federal agencies as a non-exclusive alternative to litigation. Using OGIS' services does not affect your right to pursue litigation. If you are requesting access to your own records (which is considered a Privacy Act request), you should know that OGIS does not have the authority to handle requests made under the Privacy Act of 1974.

You may contact OGIS in any of the following ways:

Office of Government Information Services
National Archives and Records Administration
8601 Adelphi Road (OGIS)
College Park, MD 20740-6001
Phone: (202) 741-5770
Fax: (202) 741-5769
Toll-free: 1-877-684-6448
Email: ogis@nara.gov
Web: <https://www.archives.gov/ogis>

For information about OIG, please refer to our Web site at www.oig.usda.gov. Should you have

² Please note that due to the COVID-19 pandemic, we suggest contacting USDA OIG via email at FOIAStaff@oig.usda.gov to ensure a more timely response.

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any questions or need additional information, please feel free to contact our office at (202) 720-5677.

Sincerely,

/s/ Alison Decker

Alison Decker
Assistant Counsel

Enclosures: Exemptions sheet/documents



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



DATE: July 12, 2019

ASSISTANT INSPECTOR GENERAL BULLETIN NO.: A-19-001-7000

SUBJECT: *Government Auditing Standards 2018 Revision*

DISTRIBUTION: All Office of Audit, Data Sciences, and Compliance and Integrity personnel

PURPOSE: In July 2018, the Government Accountability Office (GAO) issued a revision to the *Government Auditing Standards* (GAGAS). The revision contains changes from, and supersedes, the 2011 version. The revised standards are effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. This Bulletin is to incorporate the 2018 revisions.

AUTHORITY: Inspector General Act of 1978 (5 U.S.C. app. 3)

PROCEDURES: All OIG directives that include GAGAS requirements are amended as follows:

These changes, summarized below, reinforce the principles of transparency and accountability and strengthen the framework for high-quality Government audits.

- All chapters are presented in a revised format that differentiates requirements and application guidance related to those requirements.
- Supplemental guidance from the appendix of the 2011 revision is either removed or incorporated into the individual chapters.
- The independence standard is expanded to state that preparing financial statements from a client-provided trial balance or underlying accounting records generally creates significant threats to auditors' independence. Auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to perform the service.
- The peer review standard is modified to require that audit organizations comply with their respective affiliated organization's peer review requirements and GAGAS peer review requirements. Additional requirements are provided for audit organizations not affiliated with recognized organizations
- The standards include a definition for waste.

- The performance audit standards are updated with specific considerations for when internal control is significant to the audit objectives.

Until the revised OIG directives are issued, all staff should note that current Audit directives specifically state:

OIG personnel shall follow the procedures in this directive, which incorporate and supplement Government Auditing Standards. Government Auditing Standards will prevail if this directive and Government Auditing Standards appear to disagree. Government Auditing Standards also prevail for instances where this directive is unclear or has not been updated to reflect a revision to Government Auditing Standards.

EXPIRATION DATE: This bulletin will remain in effect until all revised OIG directives are issued.



(for) Gil H. Harden
Assistant Inspector General for Audit

AUDIT

Audit Enterprise Planning

APPROVAL/TRANSMITTAL

This manual section has been updated to reflect current versions of professional standards and Office of Audit practice and processes. In addition, the title of this directive has been changed to *Audit Enterprise Planning*. Office of Inspector General (OIG) personnel shall follow the policies and procedures in this directive, which incorporate and supplement *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation* (together, “the standards”). The standards will prevail if this directive and the standards appear to disagree. The standards also will prevail where this directive does not reflect a more recent revision to the standards. The engagement planning aspects from the previous version are incorporated into a revised IG-7314, *Engagement Planning, Programs, and Supervision*. This supersedes IG-7211, Change 7, *Audit Planning*, dated March 30, 2013.

PHYLLIS
FONG

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Date: 2022.04.30 09:33:39
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PHYLLIS K. FONG
Inspector General

A. POLICY

OIG is responsible for providing adequate oversight coverage over the programs and activities of the United States Department of Agriculture (USDA). The Office of Audit will undertake engagements that: (1) comply with professional standards, applicable legal and regulatory requirements, and ethical principles; (2) are within OIG's legal mandate or authority; and (3) are within OIG's capabilities to do, including adequate time and resources. At least annually, the Office of Audit will develop an engagement work plan to facilitate its mission of promoting economy, efficiency, effectiveness, and integrity in the delivery of USDA programs and activities.

B. DEFINITIONS

1. Engagement. A work project in the Office of Audit that generally results in a written product. These engagements are typically classified as an audit, review, attestation, inspection, or nonaudit service.
2. Final Action. The completion of all corrective actions and receipt of required documentation (as applicable) as specified in the Achievement of Management Decision Form. The Office of the Chief Financial Officer (OCFO) has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. OCFO will evaluate agency-provided documentation to support corrective actions taken/planned to determine if final action has occurred.

C. PROCEDURES

OIG initiates engagements based on (1) legal mandates, (2) requests from legislative bodies or oversight bodies, (3) USDA agencies' and offices' requests, or (3) at OIG's discretion. To develop OIG's engagement work plan (*OIG Annual Plan*), OIG established a planning process to select and prioritize its engagements. *OIG's Five-Year Strategic Mission and Diversity and Inclusion Plan* describes the goals, strategies, and performance measures used to accomplish OIG's mission and drives the Office of Audit engagement planning process.

(b)(7)(E)



- a. The Audit Business Operations Division (ABOD) is responsible for establishing and managing the planning process for the Office of Audit.
 - (1) ABOD will coordinate with the Assistant Inspector General for Audit (AIG/A), Deputy AIG/As (DAIG/A), and Work Units to facilitate OIG's annual and midyear engagement planning meetings. These meetings will discuss ongoing or work-in-process (WIP) engagements and proposals for new engagements.
 - (2) ABOD will load planning documents on the Office of Audit's (b)(7)(E) site to facilitate Work Units' discussion with the AIG/A and DAIG/As related to the selection of engagement proposals, staffing, resources, and timing. At a minimum, these planning documents identify WIPs, new proposals, approved engagements, and midyear statuses for each Work Unit.
 - (3) ABOD provides detailed instructions for the 2-year, annual, and midyear planning process on Office of Audit's (b)(7)(E) site.
- b. Each Work Unit within the Office of Audit will develop engagement proposals to be included in the *OIG Annual Plan* and 2-year planning documents. Work Units are responsible for inserting their information, and including WIPs and engagement proposals, into the planning documents created by ABOD.
 - (1) Planning considerations. OIG's planning process for proposed engagements includes consideration of:
 - (a) Engagements required by law or other formal commitment;
 - (b) (b)(7)(E)
 - (c) Agency challenges as discussed in the annual Management Challenges product;
 - (d) OIG Work Units' resources and capacity;
 - (e) Areas that are sensitive or of heightened interest to the Congress, Administration, or public;
 - (f) Recent major legislation and new, unaudited regulatory requirements;
 - (g) Areas suggested by OIG management and agency heads for audit coverage;

(h)

(b)(7)(E)

- (i) Results of prior investigations or hotline referrals by the Office of Investigations; and
- (j) Results from referrals or analytics from OIG's Office of Analytics and Innovation
- (k) Relevance of other Federal entities' work or topics—including other OIGs, Office of Management and Budget risk products, and Government Accountability Office (GAO) engagements and products—to avoid engaging in duplicative work that would result in additional costs to the Federal budget.

- (2) Previous engagement followup. In addition to the above considerations, OIG evaluates its need to conduct followup engagements of work performed by either OIG or GAO during the planning process.

(b)(7)(E)

(3)

(b)(7)(E)

2. Under the direction of ABOD, (b)(7)(E) uploads the approved formal *OIG Annual Plan* into the Office of Audit's system of record, (b)(7)(E) to populate OIG's engagement portfolio. All planned engagements initiate from this upload.
3. When an engagement is initiated in (b)(7)(E) auditors must ensure the specific engagement plan includes all relevant planning topics as detailed in *Government Auditing Standards* and in accordance with IG-7314, *Engagement Planning, Programs, and Supervision*. When an inspection engagement is initiated in (b)(7)(E) auditors must ensure the specific engagement plan includes all relevant planning topics as detailed in IG-7710, *Nonaudit Work*, Section F, Part 5.
4. The *OIG Annual Plan* is distributed to recipient parties per OIG entity distribution.

5.

(b)(7)(E)

END

(b)(7)(E)

(b)(7)(E)

AUDIT

Auditor Independence

APPROVAL/TRANSMITTAL

This manual section has been revised to reflect updates to auditor independence per Government Auditing Standards.

OIG personnel shall follow the procedures in this directive which incorporate and supplement Government Auditing Standards. Government Auditing Standards will prevail if this directive and Government Auditing Standards appear to disagree. Government Auditing Standards also prevail for instances where this directive is unclear or has not been updated to reflect a revision to Government Auditing Standards.

This supersedes IG-7213, Change 3, dated December 21, 2005. Remove and destroy previous editions.


PHYLLIS K. FONG
Inspector General

A. BACKGROUND

In addition to the Standards of Ethical Conduct applicable to all employees of the Executive Branch contained in 5 CFR Part 2635, and the standards applicable to employees of the Department of Agriculture contained in DR 4070-735-001, Employee Responsibilities and Conduct, all Office of Inspector General (OIG) auditors and contractors conducting work for an audit are required to adhere to Government Auditing Standards. Auditors are responsible for having a thorough understanding of Government Auditing Standards. Government Auditing Standards discuss the purpose and applicability of standards as well as ethical principles.

Independence is the first general standard set forth in Government Auditing Standards. It states: "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent." Independence comprises independence of mind and appearance. This is the state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, allows an individual to act with integrity, and enables an auditor to exercise objectivity and professional skepticism. Independence in appearance is the absence of circumstances that would cause a reasonable and

informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

OIG auditors must maintain our independence. Auditors and OIG Audit Divisions maintain independence so that our opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that we are not independent and, thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

In order to ensure OIG maintains independence, we will apply the Government Auditing Standards' Conceptual Framework Approach to Independence. The Conceptual Framework Approach is a presumptively mandatory requirement that establishes a conceptual framework that auditors should use to:

- identify threats to independence;
- evaluate the significance of the threats identified, both individually and in the aggregate; and
- apply safeguards that are available to eliminate the threats or reduce them to an acceptable level.

If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

B. POLICY

All OIG auditors, contractors, supervisors, and managers and staff must maintain an independent attitude and appearance in all matters relating to audit work and must be free from personal, external, and organizational impairments to independence.

C. PROCEDURES

1. Identify and document threats. Auditors should use (b)(7)(E) to document their consideration of threats to independence for the audit and attestation engagements they perform. Auditors should evaluate threats both individually and in the aggregate because threats can have a cumulative effect on an auditor's independence.

Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. Appropriate documentation is required under the Government Auditing Standards' quality control and assurance requirements. The following are types of threats an auditor can experience.

- a. Self-interest threat – the threat that a financial or other interest will inappropriately influence an auditor’s judgment or behavior.

Examples of circumstances that create self-interest threats:

- A member of the audit team having a direct financial interest in the audited entity. This would not preclude auditors from auditing pension plans that they participate in if the auditor has no control over the investment strategy, benefits, or other management issues associated with the pension plan, and the auditor belongs to such pension plan as part of his/her employment with the audit organization, provided that the plan is normally offered to all employees in equivalent employment positions.
- An audit organization having undue dependence on income from a particular audited entity.
- A member of the audit team entering into employment negotiations with an audited entity.
- An auditor discovering a significant error when evaluating the results of a previous professional service performed by a member of the auditor’s audit organization.

The self-interest threat consideration should be documented via the Federal Financial Disclosure Reporting process. All employees that may be assigned to an audit or attestation engagement will annually file OGE Form 450, *Confidential Financial Disclosure Report*. SES officials will file SF-278, *Executive Branch Personnel Public Financial Disclosure Report*. In order to assure that management is aware of employees’ financial interests, assets, income, and outside employment, review and approval of the OGE Form 450 will be made by the Work Unit Director, Division Director for Audit, Deputy Assistant Inspector General for Audit (DAIG/A), or the Assistant Inspector General for Audit (AIG/A) for their respective employees. Final determination of potential or actual conflicts of interest is made with the advice and guidance of the designated OIG Ethics Officer.

This review will alert managers to potential problems or conflicts of interest. When such situations are identified, the manager shall consult with the OIG Ethics Officer for advice and determination. Decisions on problem cases and conflict of interest situations will be communicated to affected employees, applicable supervisors, and management officials.

- b. Self-review threat – the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit.

Examples of circumstances that create self-review threats:

- An audit organization issuing a report on the effectiveness of the operation of financial or performance management systems after designing or implementing the systems.
 - An audit organization having prepared the original data used to generate records that are the subject matter of the audit.
 - An audit organization performing a service for an audited entity that directly affects the subject matter information of the audit.
 - A member of the audit team being, or having recently been, employed by the audited entity in a position to exert significant influence over the subject matter of the audit.
- c. Bias threat – the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective.

Examples of circumstances that create bias threats:

- An auditor having preconceptions about the objectives of a program under audit that are strong enough to impact the auditor's objectivity.
 - An auditor having biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, organization, or level of government that could impact the auditor's objectivity.
- d. Familiarity threat – the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective.

Examples of circumstances that create familiarity threats:

- A member of the audit team having a close or immediate family member who is a principal or senior manager of the audited entity.
- A member of the audit team having a close or immediate family member who is an employee of the audited entity and is in a position to exert significant influence over the subject matter of the audit.
- A principal or employee of the audited entity in a position to exert significant influence over the subject matter of the audit having recently served on the audit team.
- An auditor accepting gifts or preferential treatment from an audited entity, unless the value is trivial or inconsequential.

- Senior audit personnel having a long association with the audited entity.
- e. Undue influence threat – the threat that external influences or pressures will impact an auditor’s ability to make independent and objective judgments.

Examples of circumstances that create undue influence threats:

- External interference or influence that could improperly limit or modify the scope of an audit or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed in order to reduce costs or fees.
 - External interference with the selection or application of audit procedures or in the selection of transactions to be examined.
 - Unreasonable restrictions on the time allowed to complete an audit or issue the report.
 - External interference over the assignment, appointment, compensation, and promotion of audit personnel.
 - Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization’s ability to carry out its responsibilities.
 - Authority to overrule or to inappropriately influence the auditor’s judgment as to the appropriate content of the report.
 - Threat of replacing the auditor over a disagreement with the contents of an auditor’s report, the auditor’s conclusions or the application of an accounting principle or other criteria.
 - Influences that jeopardize the auditor’s continued employment for reasons other than incompetence, misconduct, or the need for audits or attestation engagements.
- f. Management participation threat – the threat that results from an auditor taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit.

Examples of circumstances that create management participation threats:

- A member of the audit team being, or having recently been, a principal or senior manager of the audited entity.
- An audit organization principal or employee serving as a voting member of an entity’s management committee or board of directors, making policy decisions that affect future direction and operation of an entity’s programs, supervising entity employees, developing or approving programmatic

- policy, authorizing an entity's transactions, or maintaining custody of an entity's assets.
 - An audit organization principal or employee recommending a single individual for a specific position that is key to the entity or program under audit, or otherwise ranking or influencing management's selection of the candidate.
 - An auditor preparing the audited entity's corrective action plan to deal with deficiencies detected in the audit.
- g. **Structural threat** – the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

Examples of circumstances that create structural threats:

- For both external and internal audit organizations, structural placement of the audit function within the reporting line of the areas under audit.
- For internal audit organizations, administrative direction from the audited entity's management.

This threat is safeguarded based on existing organizational structure. OIG is presumed to be organizationally independent, since the Inspector General is appointed by the President and confirmed by the U.S. Senate. In addition, only the President can remove the Inspector General after notifying the U.S. Congress.

2. **Evaluate threats.** OIG auditors are to immediately report to their supervisor all situations where they believe their ability to form independent opinions and conclusions are impaired. OIG management will determine whether the auditor needs to be reassigned if the impairment cannot be negated or removed.

Auditors and audit managers should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level. A threat to independence is **not acceptable** if it could either impact the auditor's ability to perform an audit without being affected by influences that compromise professional judgment, or could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization, or a member of the audit team had been compromised.

3. **Document safeguards.** OIG auditors should use (b)(7)(E) to document the safeguards used to mitigate the identified independence threats. Safeguards are controls designed to eliminate, or reduce to an acceptable level, threats to independence.

Examples of safeguards include:

- Consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor;
- Involving another audit organization to perform or re-perform part of the audit;
- Having a professional staff member who was not a member of the audit team review the work performed; and
- Removing an individual from an audit team when that individual's financial or other interests or relationships pose an independence threat.

Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress. These conditions should occur rarely and should be discussed with the responsible DAIG/A and AIG/A.

4. Document realized threats. OIG auditors should use (b)(6); (b)(7)(C) to document realized threats to independence that require the application of safeguards. If an auditor identifies an independence threat at any time during the course of an audit or attestation engagement, the auditor must document that threat and report the threat to their supervisor.
5. Non-Audit Services. OIG auditors could be approached to perform non-audit services as defined by Government Auditing Standards. OIG auditors must notify the responsible DAIG/A and AIG/A of any requests to determine disposition. When the AIG/A approves the performance of non-audit services, auditors will document an understanding of the objectives, scope of work, and product and deliverables in the engagement letter in accordance with Government Auditing Standards.

(b)(7)(E)

AUDIT

Audit Documentation

APPROVAL/TRANSMITTAL

This manual section has been revised to recognize organizational and title changes, include additional *Government Auditing Standards* requirements, and implement a new audit documentation suite.

OIG personnel shall follow the procedures in this directive which incorporate and supplement *Government Auditing Standards*. For any situation where this directive and *Government Auditing Standards* appear to disagree, *Government Auditing Standards* will prevail. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

This supersedes IG-7215, dated January 24, 2008. Remove and destroy previous editions.

SIGNED BY THE IG 7-8-2015

PHYLLIS K. FONG
Inspector General

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A. BACKGROUND

Government Auditing Standards require auditors to prepare audit documentation related to the planning, conducting, and reporting of each audit engagement. Additionally, auditors should prepare audit documentation in sufficient detail to provide the principal support for the audit product, to aid auditors in conducting and supervising the audit engagement, and to allow for the review of audit engagement quality.

Auditors design the form and content of audit documentation to meet the circumstances of the particular audit engagement. Within the Office of Audit, form and content is defined by *Government Auditing Standards* and this directive, but is supplemented by the following:

- IG-7211, *Audit Planning*
- IG-7213, *Auditor Independence*
- IG-7314, *Engagement Planning, Programs, and Supervision*
- IG-7315, *Financial Audits – Audit Reporting*
- IG-7316, *Performance Audits – Audit Reporting*
- IG-7317, *Attestation Audits – Reporting*
- IG-7323, *System of Quality Control*
- IG-7218, *Management Decision Process*

Auditors are required to adhere to the policies and procedures contained in these directives.

B. DEFINITIONS

1. Audit Documentation. Constitutes the principal record of the work that the auditors have performed in accordance with standards and the conclusions that the auditors have reached. Audit documentation should contain a description of the work performed, findings, conclusions, and recommendations that the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment. Audit documentation is an essential element of audit quality. 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 audit product, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit engagement quality.

Terms such as working papers, work papers, and evidence are synonymous with audit documentation.

2. Audit Engagement. A work project in the Office of Audit which generally results in a written product. These engagements are typically classified as an audit, review, or attestation.

3. Audit Product. A written narrative produced as a result of an audit engagement. Generally referred to as an audit report, but could be in other forms (review, opinion, compilation, etc.).
4. Cross-reference. A hyperlink or other executable relational link between two points in an audit engagement. Generally, it is a (b)(7)(E) hyperlink.
5. Engagement Work Program. An approved detailed list of audit steps, procedures, instructions, methodologies, or guidance for the conduct of an audit engagement. The detailed list is an electronic product created in the system of record for audit documentation (b)(7)(E)
6. Protocol. Establishes the standards that users will follow in performing OIG projects and it serves as the link between (b)(7)(E) and the project processes and documentation requirements described in this directive. It serves as a supplement to the User Guide and program help files. The protocol is periodically updated as needed and is accessible on the (b)(7)(E)
7. Unassociated Referencing Review. A process in which auditors (not associated with the audit engagement under review) review the audit product and trace, reconcile, verify, and validate the cross-references in the audit product back to supporting audit documentation.
8. Use Rules. A memorandum issued by the Assistant Inspector General for Audit implementing use rules for the (b)(7)(E) audit documentation suite. The use rules memorandum is periodically updated as needed and is accessible on the (b)(7)(E) (b)(7)(E)
9. User Guide. A guide for all users maintained by (b)(7)(E) (b)(7)(E) which describes how to perform many functions of the audit documentation suite. The user guide is periodically updated as needed and is accessible on the (b)(7)(E)

C. POLICY

Audit documentation shall be prepared in accordance with *Government Auditing Standards* and this directive. Sufficient and appropriate audit documentation must be obtained to afford a reasonable basis for the auditor's findings and conclusions.

Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit engagement. Auditors shall prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source, and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. Auditors

shall prepare audit documentation that supports the findings, conclusions, recommendations, and audit product, before the issuance of the related audit product.

Auditors shall use (b)(7)(E) as the official system of record to document, review, share, and retain work during and after the conduct of the audit engagement. The (b)(7)(E) (b)(7)(E) serve as supplements to the (b)(7)(E). Collectively, these documents serve as a link between the system and the project processes, practices, and documentation requirements described in this directive.

D. PROCEDURES

Auditors shall prepare audit documentation as described below per topic.

1. Planning

Auditors must document the planning of the work necessary to address the audit engagement objectives. This includes preparing a written audit plan, typically an engagement work program. Engagement work programs state the audit objectives and describe the planned audit scope and approach. The engagement work program identifies special or unique requirements and provides guidelines on audit methodologies, pro forma audit documentation, and software applications. The auditor must plan the types of audit documentation necessary to meet the audit objectives and should always prepare for possible expansion of the audit documentation.

2. Documenting Work Performed

Documentation will vary with the nature of the work performed. For example, *Government Auditing Standards* require that the auditor communicate to management, those charged with governance, and others a description of the audit's objectives, scope, methodology, timing, and planned reporting. Typically this is done through an engagement letter and entrance conference. Evidence of this communication must be included in the audit documentation. Generally, the engagement work program specifies the extent and nature of documentation to be obtained.

Work performed, and evidence obtained to support significant conclusions and judgments, should be sufficiently documented including descriptions of transactions and records examined. For example, by listing file numbers, case numbers, or other means of identifying specific documents examined, the auditor is not required to include in evidence copies of documents examined or detailed listings of information from those documents. This includes documenting the objective(s), scope, and methodology, including any sampling criteria used, of the audit procedure.

(b)(7)(E)

(b)(7)(E)

(b)(7)(E)

Electronic copies are preferred and professional judgment must be used to avoid including excessive images in the audit documentation suite. In some instances (such as support for investigations and appeals),¹ it is necessary to maintain the original hardcopy provided by the auditee.²

3. Mandatory Elements of Audit Documentation

Audit documentation shall be clear, concise, and contain the following information, as appropriate.³

- a. Purpose. State the purpose for performing the audit work.
- b. Source. State the specific source of all data or information so that someone not familiar with the audit can easily locate or recreate the required information.

(b)(7)(E)

- d. Details. This contains the body and specifics of the work performed. However, it should not repeat verbatim what is already documented in the project file. To eliminate redundancy, cross-reference previous inclusions. Audit documentation needs to be properly cross-referenced to supporting evidence including the criteria used to support any findings in accordance with IG-7323, *System of Quality Control*.

(b)(7)(E)

(b)(7)(E)

- e. Conclusion. The conclusion should clearly and concisely address the purpose of the audit procedure and provide the basis for arriving at the conclusion. Conclusions should be supported by the facts contained in the details of the audit documentation and cross-referenced. Auditors shall concisely summarize the audit results, including any findings. When a finding has been identified, the conclusion must include the following: specific conditions, causal factors, actual or possible effects, criteria, recommendation(s), and the outcome of discussing the situation with the auditee. (b)(7)(E)

(b)(7)(E)

(b)(7)(E)

- f. Legends. Explain all tick marks, audit symbols, or other coding used on the audit documentation.

- g. Identification. (b)(7)(E)
(b)(7)(E) Evidence obtained must be cross-referenced to findings and/or conclusions supported by the evidence.

4. Information Needed to Support Work Performed

The collection of audit information to support work performed may involve imaging or compiling records, conducting interviews, making observations, or conducting analysis. The auditor's audit documentation should reflect details of the data the auditor relied upon and should disclose the methodologies employed in obtaining it.

5 (b)(7)(E)

(b)(7)(E)

- a. Evidence. Evidence may be obtained by observation, inquiry, or inspection and may be categorized as physical, documentary, or testimonial. Each type of evidence has its own strengths and weaknesses. The nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk. The evidence obtained must meet basic tests of sufficiency and appropriateness. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of the evidence.
- (1) Physical evidence is obtained by the auditor's direct inspection or observation of people, property, or events. Such evidence may be documented in memoranda, photographs, videos, charts, drawings, maps, physical samples, etc.
 - (2) Documentary evidence consists of already existing, tangible, retrievable information such as letters, contracts, accounting records, invoices, spreadsheets, database extracts, electronically stored information, etc., created by the auditee or third parties. Auditors shall not mark-up original documents from the auditee. Any additional analysis should be performed, conducted, and documented only on a copy of the auditee's documentation, with a reference to the original document, to maintain a record of what the auditee provided prior to any additional analysis. When taking excerpts of large documents as evidence, auditors must ensure the effective date, title page, and table of contents are included.
 - (3) Testimonial evidence is obtained by inquiries, interviews, focus groups, public forums, questionnaires, signed statements from involved persons, etc. Auditors should obtain written corroboration of the testimonial evidence when subsequent refutation is possible or it will be used to support an audit conclusion or finding. Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.

Evidence that is related by subject should be grouped to facilitate review and recordation. For example, if a producer's entire crop insurance file is copied as evidence, the entire package could be assigned a control number as opposed to each form/page contained therein.

All evidence is required to have a source (such as a list of participants and their titles for interviews; date and time for interviews and observations; or "Prepared by Client" (PBC) when the supplemental document was prepared and

provided by the auditee, or the name of the person who provided the document). If the evidence merely “supplements” the audit procedure step, each piece of evidence does not need a purpose, scope, or conclusion, because it is considered part of the related engagement work program procedure step that is required to contain this information. (b)(7)(E)

(b)(7)(E)

b.

6 (b)(7)(E)

(b)(7)(E)

(b)(7)(E)

5. Cross-References

Cross-reference both manual and automated audit documentation to other audit documentation, evidence, engagement work program audit procedures, summaries, and audit products in accordance with IG-7323, System of Quality Control. Detailed and accurate cross-references are critical to facilitate subsequent reviews and unassociated referencing reviews.

6. Organization and Indexing of Audit Documentation

Audit documentation shall be organized using (b)(7)(E)

(b)(7)(E)

Audit documentation should be indexed to correspond with the engagement work program. As audit documentation is added, (b)(7)(E)

(b)(7)(E)

(b)(7)(E)

This prevents gaps in the audit document numbering that could be construed as a missing document. The Office of Audit does not allow numbering gaps to remain unexplained per the User Guide.

Any hard copy document should have an index number that clearly associates it with the relevant program step or (b)(7)(E) The title of the documentation should begin with “HC” to designate hard copy per the User Guide.

For some engagements⁷, audit documentation supporting the relevant engagement may exist/be stored in other engagement project files (historical). In this situation, auditors should document the connection and relevance between the two project files and the engagement team should make a decision whether to include a copy of the audit documentation in the relevant project file. In some instances, the best decision may be to populate the current project file with the relevant information from the other historical file.

Auditors shall apply careful planning to ensure supporting audit documentation is filed in such a manner as to facilitate its use and review.

7. Supervisory Review

Throughout the engagement, the engagement product file must document supervisory review in accordance with IG-7314, *Engagement Planning, Programs, and Supervision*. Additionally, IG-7323, *System of Quality Control* supplements this directive with additional procedures to facilitate ensuring quality in supporting audit documentation.

8. Control and Custody and Retention of Audit Documentation

A considerable amount of auditors' work consists of obtaining, examining, and evaluating evidential matter. Often this information and evidence involves privacy matters, such as personally identifiable information (PII), that are protected from disclosure as well as sensitive but unclassified (SBU) information. Auditors must be aware of their responsibilities for collecting, maintaining, and safeguarding audit information contained in audit documentation in accordance with IG-2595, *Security and Privacy – Data Security and Personally Identifiable Information* and IG-1421, *Personal Privacy Information*. The Protocol provides information regarding the designation and documentation requirements of PII and SBU in (b)(7)(E)

a. Control and Custody Over Audit Documentation.

Audit documentation control is a basic responsibility of each auditor. Auditors must maintain proper control and adequate safeguards over audit documentation and evidence at all times including knowing exactly where the audit documentation is at all times during the audit. Audit documentation should never leave the control and custody of OIG except with the concurrence of OIG management. Only authorized persons may obtain information or be provided photocopies/images of pertinent audit documentation.

Audit documentation should not be left unattended during the day in places where it is accessible to the public or to the auditee. Audit documentation should be locked up overnight. Conclusions, summaries, schedules, written interviews,

⁷ For examples, engagements conducted in phases, followup engagements, or documentation in (b)(7)(E)

observations, etc., when stored on the auditee's premises, should be kept in locked files, or at a minimum stored in a room to which only auditors have access. It is not always necessary to lock up case files being examined or audit documentation showing correspondence, reports, or other documents which are the property of the auditee or are duplicated in auditee files when working in an environment subject to the auditee's internal security controls. With the permission of the auditee, these documents may be left in structured, common areas. However, auditors must use good, sound judgment in evaluating the safety of such areas before allowing the audit documentation to be left unattended. Remember, the ultimate responsibility for any audit documentation or auditee files rests with the auditor.

When audit documentation is taken to the auditor's place of lodging, it should not be left unattended in the open; instead it should be locked in a briefcase or luggage. If this is not possible, then audit documentation should be removed to a secure place such as the trunk of the auditor's car. Audit documentation should not be left unattended in an automobile, except in the locked trunk.

As always, and even more so when working outside of OIG secured work locations, auditors should take appropriate steps to mitigate exposure of electronic audit materials. Specifically, computer screens should "user lock" to protect audit materials. An auditor's screen should never be left unattended with audit materials visible. Additionally, auditors shall follow OIG's restrictions and guidance regarding electronic exchange or forwarding of information to personal accounts or systems outside of OIG's electronic network(s) as detailed in IG-2595, *Data Security and Personally Identifiable Information*.

Auditors shall always use Government contract express delivery or other appropriate means when audit documentation is sent from one location to another. The shipment of audit documentation will be in accordance with policy or guidance regarding electronic data and privacy as detailed in IG-2595, *Data Security and Personally Identifiable Information*.

b. Retention of Audit Documentation.

Audit documentation is retained in accordance with OIG backup and retention policy. (b)(7)(E) is an enterprise suite which is maintained by the Information Technology Division (ITD) with the Office of Audit as the system owner. (b)(7)(E) (b)(7)(E) Physical evidence that cannot be stored in (b)(7)(E) will require retention via physical means.

Engagement teams shall follow backup directions provided by the (b)(7)(E) (b)(7)(E) and in accordance with engagement close-out or finalization procedures.

The audit documentation will be retained in accordance with IG-2186, *Records Creation, Retention, and Disposition*. If OIG changes software, software versions, and/or platforms, procedures will be developed to ensure that the files remain retrievable.

9. Other Items of Emphasis Regarding Audit Documentation

Auditors need to ensure adequate audit documentation exists for the following topics:

- Compliance with IG-7213, *Independence* forms.
- Any departure from standards and the resulting impact on the audit and the auditors' conclusions in accordance with IG-7315, *Financial Audits – Reporting*; IG-7316, *Performance Audits – Reporting*; and IG-7317, *Attestation Audits – Reporting*.
- Changes to audit engagement scope. Any changes to engagement scope need to be approved by the AIG/A, documented in a memorandum to the engagement project file, and successfully communicated to the auditee.
- The nature and scope of work to be performed by a specialist,⁸ if applicable.
- Work performed by contractors on behalf of the OIG.
- The process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications in situations where it is not clearly evident.
- The results of the work-to-date and reason an audit was terminated before its completion and without an audit report being issued in accordance with IG-7315, *Financial Audits – Reporting*; IG-7316, *Performance Audits – Reporting*; and IG-7317, *Attestation Audits – Reporting*.
- Any limitation on report distribution in accordance with IG-7217, *Transmittal and Distribution of Audit Reports*.
- Post audit implementation in accordance with IG-7218, *Management Decision Process* and any related documentation for final action.

END

⁸ Examples of specialists include a statistician, actuary, economist, etc.

THE AUDIT PROCESS

General Requirements – Preparation of Audit Reports for Release on Internet

APPROVAL/TRANSMITTAL DIRECTIVE

This section provides policy and procedures to follow for the preparation and review of all audit reports (except contract audits and Single Audit Act audits) in accordance with the Freedom of Information Act (FOIA), 5 U.S.C. § 552, prior to distributing and posting of the reports to the Internet. This supersedes IG-7216, dated February 6, 2001. Remove and destroy previous editions.

/S/

PHYLLIS K. FONG
Inspector General

A. PROCEDURES

The following tasks will be completed in sequence to obtain clearance for audit reports to be posted to the Internet. Section 8L of the Inspector General Act, as amended, requires the posting of an audit report to the Internet no later than 3 days after an audit report is made publicly available. 5 U.S.C. app. 3, §8L (b)(1)(A). The procedures describe the steps FOIA staff will take in reviewing the official draft (OD) and the final report (FR) prior to posting reports to the Internet. For purposes of this section, the "Internet" refers to the official Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), Web site located at <http://www.usda.gov/oig>. Any questions regarding these procedures should be directed to the OIG FOIA Officer.

1. After the program agency responds, Audit will compile the OD and ensure the report is Section 508 compliant. Audit will send the OD to FOIA REVIEW (b)(7)(E) for processing.
2. FOIA staff will review the OD for sensitive information and will either clear the report, indicating to the office responsible for the report that no changes are required, or will make redactions to the OD as necessary.
3. If redactions are necessary, FOIA staff will provide the redacted OD to Audit for review. Audit will notify FOIA staff of any concerns or objections respecting the proposed redactions.
4. Once FOIA review is complete, FOIA staff will email the results to Audit.
5. The division responsible for the report (Division) will develop a routing slip detailing how many physical copies of the FR need to be printed and who needs to receive them. Standard distribution of FRs to USDA agencies and liaisons will

be conducted in accordance with IGM-7217, Transmittal and Distribution of Audit Reports.

6. The audit office responsible for the report and the Division will work together to finalize the report and obtain the necessary final electronic signature approvals for publication.
7. Once the necessary approvals are obtained, the Division will email a portable document format (PDF) file of the FR to FOIA REVIEW (b)(7)(E) at the same time the FR is sent to the program agency. The Division will include a one sentence summary of the FR, which the Office of Management (OM), Information Technology Division (ITD) will use with the Facebook page posting.
8. FOIA staff will save the FR to a central directory and send it to (b)(7)(E) (b)(7)(E) will electronically transmit the PDF file to staff in USDA's Communications Office and Congressional Relations Offices as appropriate.
9. Within 3 business days after being provided to Congress, the OIG report will be publicly released through posting to the Internet.
 - a. FOIA staff will send an email request, along with a FR attachment, to the OM/ITD staff for posting the FR to the Internet. The request will provide information as to where the FR needs to be posted.
 - b. The OM/ITD staff will post the FR to the Internet and notify FOIA staff that the FR is now posted. The FR will appear in "What's New" for 4 months.
 - c. The OM/ITD staff will post the FR to Facebook and send an email announcing the post to the OIG reports Listserv, which notifies subscribers of new audit reports posted to the Internet.
10. FOIA staff will notify additional Congressional staff offices and members of the news media, as appropriate, that audit reports are posted via email lists maintained by FOIA staff.

B. GENERAL CONSIDERATIONS

1. In accordance with the Freedom of Information Act (FOIA), 5 U.S.C. § 552, some audits are not posted, or are only posted in part, due to sensitive security content.
2. Audits that warrant withholding of information in full or in part will be determined on a case-by-case basis by the Office of Counsel, in consultation with Audit managers, keeping in mind the following general FOIA considerations:
 - a. Personal identifiers, such as individuals' names, social security numbers (SSNs), farm serial numbers (FSNs), insurance policy numbers, bank account numbers, or loan numbers, cannot be used in audit reports. An alphabetic code sheet can be used instead, and the program agency can be provided the code sheet.

- b. Audit staff shall encourage program agencies not to use personal identifiers in the agency responses (such as names of the subject(s) of the report and identifiers summarized above). If such information is used, this information must be redacted, which will cause a delay in releasing the report.

c. (b)(7)(E)

- d. When matters identified in an audit report are referred to Investigations, FOIA staff will confer with the (b)(7)(E) supervising the investigation to determine if posting the report to the Internet would adversely affect the open investigation. (b)(7)(E)

(b)(7)(E)

e. (b)(7)(E)

END

THE AUDIT PROCESS

General Requirements –
Transmittal and Distribution of Audit Reports

APPROVAL/TRANSMITTAL

This revision replaces the detailed listing of agency contact points (exhibit A) with a link to the exhibit on the Office of Inspector General's (OIG) Intranet Web site. The Intranet link provides access to the most current listing of agency liaisons with updates made as changes are identified. This revision also implements electronic distribution of reports, eliminates the requirement to furnish hard copy audit reports to the Division Director for Audit, changes the discussion draft signature authority from the Division Director for Audit to the Deputy Assistant Inspector General for Audit, and removes both the section on Regional Inspector General responsibilities related to special limited distribution of audits of United States Department of Agriculture contracts and the corresponding exhibit C. This supersedes IG-7217 dated October 2006. Remove and destroy previous editions.

/s/

Phyllis K. Fong
Inspector General

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Distribution **B**

NOTICE: THIS DIRECTIVE IS FOR OIG OFFICIAL USE ONLY.

November 2010

- A. POLICY. Audit reports prepared by OIG and contractors shall be promptly distributed to action and information addressees in accordance with the procedures in this directive and as detailed in [exhibit A](#) on OIG's Intranet Web site.

Audit reports prepared by other Federal audit agencies or non-Federal audit staffs under the Single Audit Act and OMB Circular A-133 and that concern Department of Agriculture (USDA) programs, shall be distributed as detailed in [exhibit B](#).

Audit reports are to be submitted to the appropriate officials of the organization audited, including external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent such distribution. (There should be coordination with OIG, Office of Counsel (OC) whenever there appears to be an issue or question with respect to legal or ethical considerations that would restrict distribution.) Reports directed to the agency's Headquarters will be forwarded to the Agency Liaison Officer for subsequent intra-agency distribution.

B. RESPONSIBILITIES

1. AIG/A

- a. Recommend to the Inspector General (IG) that significant and/or sensitive audit reports be forwarded to the Secretary and/or Deputy Secretary.
- b. Transmit a "courtesy" copy of audit reports addressed to the Administrator level or above to the Assistant or Under Secretary, as appropriate (see B.3.c.).
- c. Transmit all official drafts, fast reports, and audit reports addressed to the Administrator level or above.

2. DAIG/A – Transmit discussion drafts of reports addressed to the Administrator level or above.

3. DD/A - Applicable to the Directors of the Rural Development and Natural Resources Division, the Food and Marketing Division, and the Farm and Foreign Agricultural Division.

- a. Recommend to the AIG/A those audit reports that should be sent to the Secretary for informational purposes.
- b. Identify those audit reports that have known or potential interest to congressional committees and/or subcommittees.
- c. Prepare a 5"x7" transmittal memorandum for the IG's signature to provide a courtesy copy to the Secretary, Deputy Secretary, their respective Chiefs of Staff, and Under/Assistant Secretary, as deemed appropriate, for all final audit reports.
- d. Provide the RIG and, when applicable, the Directors for the Financial Audit Operations Division (FAOD); the Information Technology, Audit Operations and

Departmental Management Division (ITAO&DMD); and the Data Analysis and Special Projects Division (DA&SPD); with an electronic copy of the signed/dated transmittal letter, and an electronic copy of the final signed/dated audit report. Headquarters will date stamp the documents and send the original signed/dated audit report to the region and, if applicable, to the division (FAOD, ITAO&DMD, or DA&SPD) via overnight mail. (Note: The FAOD, ITAO&DMD, and DA&SPD will generally be responsible for completing this function for reports issued by each respective division.)

4. RIGs and Directors for FAOD, ITAO&DMD, and DA&SPD

- a. Report Transmittal. Transmit reports if signatory authority has been specifically delegated by the AIG/A. For Administrator-level or above reports, prepare a transmittal letter for the DAIG/A's signature for discussion drafts and a transmittal letter for the AIG/A's signature for official drafts and final audit reports.
- b. Standard Report Distribution. Distribute copies of final audit reports in accordance with the schedules in [exhibit A](#). Final audit reports shall be issued without the auditee's written comments to the official draft only if comments have not been provided within a reasonable time.
- c. Distribution to the Auditee Agency. The regions and divisions (FAOD, ITAO&DMD, and DA&SPD) will distribute the final reports within 24 hours of receipt from Headquarters in accordance with the schedules in [exhibit A](#). Electronic versions (pdf. format) of the reports and transmittal letters are to be submitted the same day. The electronic version should include the restricted distribution notice "For Official Use Only" on the report cover page.

The region will prepare the Section 508 compliant (pdf) file for submission to OC/Freedom of Information Act (FOIA) by replacing the transmittal page denoting the original signature with a version reflecting "/s/" and the typed-in date. The restricted distribution notice and any OIG signatures are to be removed from the report cover page because the audit report will be posted on the Internet. This final audit report electronic (pdf) file is to be forwarded to OC/FOIA as specified in [exhibit A](#).

Note: The OC/FOIA review is no longer required before the distribution of final audit reports unless the report is sensitive, high profile, involves employee misconduct, contains trade secrets or confidential commercial information.

- d. "Courtesy" Copies of Significant/Sensitive Audit Reports. When deemed appropriate, prepare a memorandum for the AIG/A to transmit a "courtesy" copy of audit reports and fast reports to the interested Assistant or Under Secretary.
- e. Special Added Distribution. In addition to the standard distribution, make special distribution for audit reports as indicated in [exhibit B](#).
- f. Special Limited Distribution – Investigative Matters.

- (1) Coordinate with the Investigations staff on the distribution of audit reports containing information related to an investigation in process or scheduled to avoid possible premature release of investigative data.
 - (2) Advise the OC/FOIA Officer when the Investigations staff determines that release of an audit report would interfere with an ongoing investigation.
- g. Distribution Within OIG. The distribution page of the audit report should show only distribution external to OIG.
- (1) Maintain an electronic copy of the signed final audit report and transmittal letter in the appropriate (b)(7)(E) folder.
 - (2) Electronically transmit (pdf.format) a 508 compliant copy of each audit report to OC/FOIA.
 - (3) Send to other regions electronic copies of any reports that may be of interest due to the regions' participation in the audit, the nature of the findings, audit techniques and approaches used, or areas that may require audit planning in other locations.
 - (4) Send electronic copies of all audit reports pertaining to Farm Service Agency, Risk Management Agency, Rural Housing Service, Forest Service, Natural Resources Conservation Service, Office of the Chief Financial Officer, Office of the Chief Information Officer, Office of Procurement and Personnel Management, and Office of Operations to the FAOD staff in Kansas City, Missouri. Audits issued to these agencies may impact financial statement reviews.
 - (5) Furnish to the referring Investigations office a copy of all audit reports that contain matters referred from Investigations.
 - (6) If the report pertains to the American Recovery and Reinvestment Act of 2009 also furnish an electronic copy to (b)(6) for further processing to be posted on the Recovery Accountability and Transparency Board and OIG Recovery Act Web sites.
- h. Release to GAO. Electronically furnish to the Government Accountability Office (GAO), as part of the standard distribution, copies of released audit reports as specified in [exhibit A](#). In addition, other audit reports may be released to GAO upon request. No draft reports may be released to GAO without the prior approval of the AIG/A, in consultation with the Deputy IG and/or IG.
- i. Release to OMB. Electronically furnish to OMB, as part of the standard distribution, copies of released audit reports as specified in [exhibit A](#). In addition, other audit reports may be released to OMB upon request. No draft reports may be released to OMB without the prior approval of the AIG/A, in consultation with the Deputy IG

and/or IG.

- j. Release to OCFO. Transmit one hard copy of all released audit reports to the Office of the Chief Financial Officer (OCFO) marked "OCFO AUDIT LIAISON OFFICE," as part of the standard distribution, as specified in [exhibit A](#). The Audit Liaison Office has responsibility for determining that final actions taken by the agencies in response to the management decisions on audit recommendations are adequate. Also, send to the Audit Liaison Office a copy of all Achievement of Management Decision forms and memoranda.
- k. Release to OCIO. Electronically furnish and also transmit one hard copy of all released audit reports pertaining to information technology to the Office of the Chief Information Officer (OCIO) marked "OCIO AUDIT LIAISON OFFICE," as part of the standard distribution, as specified in [exhibit A](#).
- l. Release to the Public. All requests from the public for audit reports should be referred to OC/FOIA in accordance with IG-1411.
- m. Release to Congress. After a final audit report is provided to relevant agency officials and USDA's congressional and communications offices, the report is provided to OC for FOIA processing. Once reports have been cleared by OC/FOIA staff, OC distributes the reports to relevant congressional oversight committees and has them posted for the public on OIG's Web site. OC's policy is to provide audit reports to relevant congressional entities one full business day before the reports are publicly posted.

All congressional requests for audit reports should be referred to OC in accordance with IG-1411.

END

AUDIT

Management Decision Process

APPROVAL/TRANSMITTAL

This manual section is updated to reflect current versions of professional standards and Office of Audit practice and processes. Office of Inspector General (OIG) personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*. This supersedes IG-7218, dated February 17, 2014.

PHYLLIS
FONG

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PHYLLIS K. FONG
Inspector General

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EXHIBITS

Exhibit A—Achievement of Management Decision Form
Exhibit B—Engagement Decision Paper

A. BACKGROUND

Pursuant to the Inspector General Act of 1978, 5 U.S.C. app. 3, §§ 1-13, as amended, OIG has established a management decision process. Departmental Regulation (DR) 1720-1, *Audit Follow-up and Management Decision*, issued November 2, 2011, sets forth related U.S. Department of Agriculture (USDA) policies, definitions, responsibilities, and procedures. DR 1720-1 provides actions required once an OIG audit report is issued and management decision has been reached for corrective actions taken and/or planned to fulfill audit recommendations within USDA to final action.¹ In addition, DR 1720-1 defines monetary categories for findings, outlines responsibilities for OIG and agency officials for reaching management decisions on recommendations, and assigns the Office of the Chief Financial Officer (OCFO) the responsibility for monitoring and tracking final action.

B. DEFINITIONS

1. Agency Management Response. An official response provided by the entity addressing the reported recommendation. Agency responses must include the following:
 - A plan of action to be taken for each recommendation and proposed completion dates for implementation of each corrective action.
 - A copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records.² If final action has occurred, evidence of collection would suffice. In certain unique circumstances, such as loans made to borrowers for improper use, accounts receivable cannot be established until the borrower's appeal rights have been exhausted. For final action under these circumstances, require the agency to provide evidence that an accounts receivable has been established, disallowed costs have been collected, or disallowed costs have been modified during the appeals process.
 - Justification for any recommendation and/or monetary amount not considered valid.
 - A written agreement for the reported monetary results amount coded as "recovery recommended" (detailed in Exhibit A of the audit report). If an

1	(b)(7)(E)
	(b)(7)(E)
2	(b)(7)(E)
	(b)(7)(E)

acceptable time-phased corrective action plan has been proposed by management but agreement has not been reached on the monetary results, the recommendations containing the monetary results in Audit's management information system (b)(7)(E) will continue to be classified as unresolved.

2. Engagement. A work project in the Office of Audit that generally results in a written product. These engagements are typically classified as an audit, review, attestation, inspection, or nonaudit service.
3. Engagement Product. A written narrative produced as a result of an engagement. Generally referred to as an audit report but could be in other forms (review, opinion, compilation, evaluation, etc.).
4. Entity. Typically a USDA agency or office but can also be any other USDA organization, such as a mission area or the Office of the Secretary. In Office of Audit lexicon, the entity is commonly referred to as the auditee.
5. Final Action. The completion of all corrective actions and receipt of required documentation (as applicable) as specified in the Achievement of Management Decision Form. OCFO has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. OCFO will evaluate agency-provided documentation to support corrective actions taken/planned to determine if final action has occurred.
6. Interim Report. A stand-alone report of issues that need the immediate attention of agency management prior to the completion of the engagement. Based on the agency's response to recommendation(s) made, management decision may be reached for the recommendation(s) within the interim report before the audit report is issued.
7. Management Decision. The state of a reported recommendation when OIG agrees with agency management's response to the subject recommendation. Management decision includes agreement with the plan of corrective action(s) taken and/or planned, the proposed completion dates for planned corrective action(s), and actions for each reported recommendation. It can also be achieved directly through the enactment of final action.

A management decision cannot be considered achieved until OIG concurs or until a final determination is rendered by the Departmental Audit Follow-up Official (currently the Deputy Secretary) in cases of dispute. The effective date of the management decision is the date of OIG's correspondence to the agency expressing acceptance.

8. Official Draft Report. OIG engagement product formally provided to agency management for official written response to findings and recommendations.

C. POLICY

(b)(7)(E)

OIG staff will review, decide, and process management decisions timely. (b)(7)(E)

(b)(7)(E)

Generally, OIG should not accept management decisions if any of the circumstances below apply:

1. The proposed action(s) do not specifically meet the recommendations. However, if alternative actions put forth would correct the causes of the conditions noted in the engagement product, they may be accepted.
2. The proposed action(s) are not permanent in nature. For instance, if regulatory change is needed, do not accept any interim action such as an administrative notice having an expiration date. This does not preclude accepting interim actions or mitigating measures that meet the intent or nature of the recommendation. For instance, management may elect to immediately implement controls to address a recommendation while the change is made effective administratively. Additionally, mitigating actions may be presented for management decision while a legislative change is proposed. These actions would be considered acceptable and the management decision document should reflect the interim nature in relation to final action.
3. The proposed action(s) will take more than 12 months to implement. If corrective action is long term in nature, such as major changes to automated systems, an interim measure should be put forth by management to minimize the adverse condition during the corrective action period.
4. The proposed action(s) require further study or examination of the issues presented in the audit report. For example, if corrective action(s) may be contingent upon study results, neither a commitment to implement the engagement product recommendations nor the timeframes for implementation would have been obtained. In these circumstances, the recommendations should remain open until a detailed time-phased corrective action plan has been formulated.

5. Written agreement on the monetary results amounts classified as “recovery recommended” reported in Exhibit A has not been reached. And, agreement on monetary results amounts classified under other terms has not been reached.

In order to ensure proposed auditee actions are sufficient to fully address recommendations, OIG needs to specifically state how we want the auditee to meet final action. This specificity will ensure that both the auditee, in developing and fulfilling its corrective action plan, and OCFO, in its monitoring role, fully understand what specific steps must be taken.

The management decision process for Interim Reports is addressed in IG-7401, *Interim Reports*. The timeframes related to the management decision process for interim reports are shorter. Refer to IG-7401 for specific timeframes.

D. PROCEDURES

Management’s response for each reported recommendation in an official draft report is normally requested 30 days from the date of the report issuance.

The work unit responsible for making the recommendation will evaluate the response to determine whether the response addresses the recommendation and OIG accepts the management decision. The Assistant Inspector General for Audit (AIG/A) will sign all management decision correspondence. Timeframes, responsibilities, and procedures for achieving a management decision are outlined below:

1. Management Decision Accepted for One or More Recommendations. Within 30 days of receipt of the agency’s reply to an official draft report, OIG will take the following actions:
 - a. The work unit responsible for the engagement will prepare a confirmation memorandum to the agency (cc: to OCFO) conveying OIG’s acceptance of the agency’s management decision. The memorandum will advise the agency of the following:
 - (1) The recommendation(s) for which management decision has been reached between OIG and the agency. A copy of the agency response, OIG’s memorandum, and the Achievement of Management Decision Form are provided to OCFO.
 - (2) To follow internal agency procedures in forwarding final action correspondence to OCFO.
 - (3) That final action on the management decision should be completed within 1 year of the date of the management decision to preclude being listed in the Department’s Performance and Accountability Report per Departmental Regulation 1720-1.

- b. Work units will prepare the Achievement of Management Decision Form for all recommendations for which management decision has been newly achieved (see Exhibit A). Where space permits, multiple recommendations and the associated management decisions/OIG position can be described on a single form. If the agency provides a single corrective action that would fulfill multiple recommendations, the recommendations should each be restated and followed by the agency response and OIG's position, the estimated (or final) completion date, and if final action has not been taken, a description of the actions and/or documents necessary to achieve final action.
- c. In cases where the recommendation and the agency's response (that resulted in management decision), in the audit team's judgment, leave absolutely no doubt as to what actions are to be (or have been) taken and when, this requirement can be met by simply stating, *For Final Action, provide documentation to OCFO that the (agreed upon actions) have been taken*. If not, greater specificity is needed.
- d. The applicable work unit will transmit the memorandum and the form to the auditee and OCFO.
- e. When management decision is achieved through the agency management response to the official draft report, the Achievement of Management Decision Form(s) for these recommendations shall be prepared and presented with the final report for signature. Care should be taken to ensure the management decision correspondence (confirmation memorandum and the Achievement of Management Decision Form) is issued after release of the final report when management decision has been accepted for at least one or all of the report's recommendations. In that situation, the date on the Achievement of Management Decision Form(s) should correspond to the date of the report.
- f. Prepare documents for (b)(7)(E) and input and ensure the accuracy of information entered.
- g. Work units will include all correspondence in (b)(7)(E)

2. Management Decision Not Accepted for Recommendations.

If agreement cannot be reached through correspondence or by telephone, meetings with entity personnel should be arranged. If at any time the work unit and entity reach an impasse or if the reply is not received in a timely manner, the matter should be referred immediately to the next higher management official level, if appropriate.

Within 30 days after receipt of the agency reply for an official draft report, OIG will take the following actions:

The work unit responsible for the engagement will prepare a confirmation memorandum to the agency (cc: to OCFO). The memorandum will convey a rebuttal or explanation of the reasons for disagreement, the actions needed to reach agreement, any actions to correct the condition(s), and/or recommend meetings with the auditee. If needed, additional information should be requested within a specified timeframe (usually 15 days).

The actions that are set forth below are guidelines only; the actual actions and timeframes to be undertaken are a matter of judgment contingent upon the underlying circumstances precluding or impairing resolution. Work unit directors should consult with Office of Audit senior management to develop the appropriate course of action for each individual engagement.

Within 90 days after report release, the following actions should be taken:

Work units are to alert the applicable Deputy Assistant Inspector General for Audit (DAIG/A) of the absence of management decision and, if needed, enlist assistance in dealing with the agency in an effort to achieve management decision.

Within 120 days after report release, the following actions should be taken:

- a. Work units are to prepare and transmit to the applicable DAIG/A an engagement decision paper addressed to the agency head (see Exhibit B). The engagement decision paper should set forth both the OIG and agency management positions and include any documentation that may assist in resolving the disagreement. A transmittal memorandum should be prepared for the DAIG/A's signature and forwarded to the agency head.
- b. As necessary, the applicable DAIG/A is to schedule a meeting to discuss the matters with the agency head. The meeting should normally be held within 15 days after the engagement decision paper was sent to the agency. If management chooses to reply in writing in lieu of a meeting, the reply should be requested within 15 days.

Within 135 days after report release, the following actions should be taken:

Work units are to update the engagement decision paper to reflect any new information obtained from the agency head and forward it to the applicable DAIG/A. A transmittal memorandum should be prepared for the DAIG/A's signature to the appropriate Under or Assistant Secretary, and

a written response should be requested or meetings held within 10 days. A copy should be sent to the agency head.

Within 150 days after report release, the following actions should be taken:

- a. If a satisfactory solution cannot be reached, the work unit is to update the engagement decision paper to elevate matters to the Departmental Audit Follow-up Official, currently designated as the Deputy Secretary.
- b. The work unit is to transmit the engagement decision paper signed by the Inspector General to the Deputy Secretary with copies to the applicable Under or Assistant Secretary and the agency head. The Deputy Secretary will render the Department's final decision.
- c. Immediately upon learning that a previously agreed-to management decision has not been or will not be complied with (through notification from OCFO or through other sources, such as engagement follow-up activity), the process is to be reinitiated at the appropriate agency level.

3. Changes in Management Decision

OCFO may transmit to OIG agency requests to change agreed upon management decisions. These requests should be reviewed for adequacy. If the proposal is accepted, the timeframe for achieving final action (12 months from the date of the original management decision) should generally remain unchanged. This correspondence is also signed by the AIG/A.

END

AUDIT

Engagement Planning, Programs, and Supervision

APPROVAL/TRANSMITTAL

This section has been updated to reflect changes due to revisions to *Government Auditing Standards* issued by the U.S. Government Accountability Office and the Expectations for Audit Assignment Management issued by the U.S. Department of Agriculture (USDA), Assistant Inspector General for Audit (AIG/A).

OIG personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

This supersedes IG-7314, dated September 12, 2007. Remove and destroy previous editions.

Signed By the IG on 4-23-2014

PHYLLIS K. FONG
Inspector General

April 2014

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EXHIBIT

Exhibit A Evaluation of Audit Performance

A. BACKGROUND

Government Auditing Standards (GAGAS) require that audit engagements be adequately planned and properly supervised. The planning process should address how the audit objectives are to be attained while establishing a balance between the scope of the audit engagement and the required timeframes and staff days to ensure optimum use of resources. Audit engagements may include survey steps to solidify the need for the engagement and to form the basis for establishing the audit approach.

Effective supervision is the most important element of OIG's system of quality control to ensure compliance with standards and directives. It is the auditor's responsibility to become familiar with GAGAS and other professional standards, as applicable. Individual employees must also maintain a working knowledge of the current OIG directives needed to carry out their assigned duties.

B. DEFINITIONS

1. Audit Documentation. Constitutes the principal record of work the auditors performed in accordance with standards and the conclusions that the auditors have reached. Audit documentation should contain a description of the work performed, the findings, conclusions, and recommendations the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment. Audit documentation is an essential element of audit quality. 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 audit product, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.

Terms such as working papers, work papers, and evidence are synonymous to audit documentation.

2. Audit engagement. A work project in the Office of Audit which generally results in a written product. These engagements are typically classified as an audit, review, or attestation.
3. Audit product. A written narrative produced as a result of an audit engagement. Generally referred to as an audit report, but could be in other forms (review, opinion, compilation, etc.).
4. Engagement Work Program. An approved detailed list of audit steps, procedures, instructions, methodologies, or guidance for the conduct of an audit engagement. The detailed list is an electronic product created in the system of record for audit documentation (b)(7)(E)
5. Program. The subject of the audit. The term encompasses government entities, organizations, governmental programs, activities, and functions.

6. (b)(7)(E) The audit documentation suite employed by Audit as the system of record for all audit engagements.
7. General controls. The policies and procedures that apply to all, or a large segment of, an entity's information systems. Includes controls related to security management, physical and logical access, configuration management, segregation of duties, and contingency planning.
8. Application controls. Sometimes referred to as business process controls, these are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. This term includes controls that cover input, processing, output, master data, application interfaces to other systems, and data management reconciliation.

C. POLICY

All audit engagements will be planned in accordance with GAGAS, this directive, and IG-7211, *Audit Planning*. Financial engagement work programs and plans are prepared in accordance with IG-7315, *Financial Audits – Audit Reporting*. Additionally, the engagement work program, an essential and required piece of audit documentation, must be prepared in accordance with IG-7215, *Audit Documentation*.

Engagement work programs must be developed and audit engagements must be supervised in accordance with this directive, which incorporates and supplements GAGAS. Employees must also be familiar with *Expectations for Audit Assignment Management* issued November 22, 2011, and engagement managers must supervise and conduct the engagement in accordance with the document.

Engagement work programs must be formulated using the current “OIG Audit Program Template” (generic term) that is available in the (b)(7)(E) directory. Prior to initiating an audit engagement, the work shall be adequately planned and coordinated through the development and approval of an electronic engagement work program that provides:

1. A systematic series of audit steps, procedures, and methodologies (including any sampling methodologies) to be communicated to assigned staff members.
2. A systematic basis for assigning work to audit staff.
3. The basis for a record of work performed.

All engagements must be supervised in accordance with GAGAS using the procedures and guidance provided in this directive.

D. PROCEDURES FOR ENGAGEMENT PLANNING

Engagement planning encompasses several different elements of the audit process. These include objective, scope, methodology, staffing, timing, and the unique aspects of each specific engagement. Each of these aspects must be examined first individually, then collectively, in order to formulate an overall plan that will result in an engagement that maximizes results, ensures the prudent use of resources, fulfills mandatory requirements, and provides management with timely assistance.

Auditors must adequately plan and document the work necessary to address the audit objectives. When formulating objectives, auditors must make judgments regarding tradeoffs that may be encountered prior to or during the audit engagement. For example, though multiple objectives may be identified as warranting examination, they may cause the scope of the review to become too extensive in terms of audit timing and available resources. In this case, a determination must be made regarding whether certain objectives can be deferred for a subsequent engagement. Similarly, the scope must be closely analyzed considering the results needed to persuade the auditee to take corrective action and the need to generate timely results.

OIG Auditors must assess the risk associated with reduced impact compared with the benefit derived from more promptly identifying reportable conditions. The methodology of the audit engagement could be affected by the availability or auditability of program data, which in turn affects the objectives and scope. Availability and auditability of data must be ensured to meet the sufficiency requirement of evidence. Similarly, actions such as corroboration with supplemental sources must be undertaken to ensure the data are valid to fulfill the evidence requirement of competence. All aspects of an audit engagement must be in synergy to achieve the goal of a highly cost-effective engagement.

The survey steps of the engagement work program should validate the need for continuing the engagement. Survey steps are essential to the overall audit process, in that they should help conserve resources and guide the substantive testing that may occur during the audit engagement.

1. Objective

The first and most critical phase of audit planning is to establish the audit objective(s). The objectives drive the audit engagement.

Establishing precise objectives is essential because an audit engagement without clear objectives could result in wasted resources, delays, and/or poor quality audit products. In analyzing possible audit objectives, auditors must consider the significance of an issue, the availability of data and resources, and the potential for developing workable recommendations.

The formulation of audit objectives is a complex process. Audit objectives state what the audit engagement intends to accomplish. 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. Formulating meaningful and achievable audit objectives

requires a clear understanding of the program, activity, function, or organization to be audited. Audit objectives impact every phase of the audit, from the selection of scope, methodology, and staff, to the timing and nature of audit products. Audit product findings are generally aligned with the objectives. Therefore, it is critical that objectives be distinct, clear, and provide for segmentation of potential audit findings.

Objectives are based primarily on the purpose of the audit engagement. Generally, the purpose evolves from the perceived audit need. In some circumstances, however, the audit objectives may be derived from other sources. Examples include whistleblower complaints, legislative requirements, or internal/external requests. The basis for all objectives must be documented.

The survey steps of an audit engagement should either confirm or lead to revision of the original audit objectives. These conclusions are generally derived from:

- An evaluation of internal controls and the associated risks identified.
- Preliminary evaluations and compliance tests of applicable laws, regulations, policies, and procedures.
- Other survey tests.
- An evaluation of corrective action (adequacy and effectiveness) taken on material deficiencies noted during prior audits as they apply to the planned objectives.

Once the objectives have been reaffirmed or revised, auditors must determine whether GAGAS can be met in the performance of the audit engagement. If any of the standards cannot be met, documentation is required to depict the issue(s), document the approval to proceed with the audit engagement, and document the impact of deviations from GAGAS on the audit conclusions. This would be documented via a memo to the project file and approved by the AIG/A or applicable Deputy Assistant Inspector General/Audit (DAIG/A).

2. Scope

The scope is the boundary of the audit engagement and is directly tied to the objectives. It consists of the nature, timing, and extent of substantive tests to be performed, the period of program activity under examination, audit sites to be visited, and any limitations in audit coverage. The scope should ensure significant matters are adequately tested and evaluated to fulfill the objectives.

An important factor in scoping is the potential use of other auditors' work. State auditors, for example, routinely examine State-administered Federal programs, and thus some or all of their work may have utility. Upfront planning is necessary to facilitate this coordination. Other possibilities exist to supplement or complement OIG's audit engagements and should be considered where warranted. If auditors choose to rely on the work of others, certain procedures must be performed, and GAGAS provide

provisions regarding the work of others. At a minimum, auditors should perform actions such as obtaining evidence of other auditors' qualifications and independence, and determining the sufficiency, relevance, and competence of other auditors' evidence. Auditors should make arrangements to obtain and review the audit documentation of other auditors to provide the necessary assurances in accordance with GAGAS.

Decisions about audit scope should be based on such factors as:

- a. The most current profile data of program transactions (the program universe needs to be considered to identify the population that receives the preponderance of program assistance).
- b. Adequacy of internal controls as determined during the survey steps.
- c. The risk that noncompliance with laws and regulations could occur.
- d. Extent of impact needed to persuade management to implement corrective actions.
- e. The reliability of computer-processed data.
- f. Availability of staff and other resources (e.g., travel funds).
- g. Time constraints regarding when the audit results are needed.
- h. Issues of interest to management.
- i. Coordination with OIG's financial audit activity to determine if testing can be performed to facilitate that effort and/or if financial audit results can be used in the planned performance audit. Care should be exercised to avoid duplication of work.

If non-statistical selection criteria are used, the scope should provide supporting information on how the specific locations, or other selection units, and specific transactions were selected. Any bias influencing non-statistical selections must be clearly stated. For purposes of this section, the term "bias" represents employing selection criteria where problems are known or perceived, like poor management, historical program deficiencies, lack of past management corrective action, etc.

If judgment is used to select transactions for testing, the scope should explain the criteria that guided the auditors' selections and the volume of items that should be tested in relationship to the universe, e.g., "We selected the 20 largest transactions for review out of a universe of 140 transactions." If criteria cannot be provided, the audit documentation must include a narrative explanation that discloses how transactions were selected.

The applicability and use of advanced techniques (e.g., statistical sampling, computer matching, and data analytics) need to be assessed for each audit engagement. For audit engagements that are nationwide/multiregional in scope, auditors should consider using statistical sampling in order to provide quantitative evidence regarding the operation of the program as a whole. Auditors should consult with OIG statisticians and use care in the development of, and the decision to adopt, a sampling methodology. The cost benefit of applying statistical sampling should be considered. All sampling methodologies are subject to the applicable provisions of IG 7323, *System of Quality Control*.

In addition, auditors must determine and document the need to assess the reliability of computer-processed data in order to fulfill the audit objectives. The validity of computer-based data must be assessed if their reliability is crucial for accomplishing the audit's objectives, or if the audit engagement's purpose is to evaluate a management information system. An audit engagement that seeks to evaluate a system should normally also include an evaluation of the general and application controls. See the Government Accountability Office's (GAO) guide, *Assessing the Reliability of Computer-Processed Data* (GAO-09-680G), issued July 2009, and the Federal Information System Controls Audit Manual (GAO-09-232G), issued February 2, 2009, for additional guidance.

If compliance with laws and regulations is an audit objective, auditors should first evaluate the reasonableness of the requirements. In other words, auditors should consider questions such as "Does the requirement make sense?" and "Is there a better way to achieve the program goal or to improve economy and efficiency?" Traditional compliance auditing should be considered subordinate to, although in support of, an assessment of the adequacy of the program criteria.

GAGAS require that, in planning the audit, auditors should assess the risk of fraud,¹ abuse, and/or illegal acts occurring that are significant within the context of the audit objectives. When auditors identify factors or risks related to actual or suspected fraud that they believe are significant within the context of the audit objectives, they should design procedures to provide reasonable assurance of detecting such fraud.

Auditors must also determine whether GAGAS can be met in the performance of the audit engagement. If any standards cannot be met, documentation is required to depict the issue(s), document the approval to proceed with the audit engagement, and document the impact of deviations from GAGAS on the audit conclusions. Additionally, the audit product must disclose any departures from GAGAS or scope limitations.

3. Audit Methodology

The methodology describes the nature and extent of audit procedures for gathering and analyzing supporting audit documentation to address the audit engagement objectives. Methodology generally relates to the techniques used to gather supporting audit documentation and the types evidence relied upon (documentary, testimonial, physical,

¹ Fraud is a type of illegal act which involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility.

and/or analytical²). Audit conclusions are most frequently supported by documentary evidence. Reliance on physical evidence (such as the observation of inventory),

analytical evidence (like ratio analyses of financial data), or testimonial evidence (such as interviews of agency employees) should be disclosed in the methodology statement.

To achieve audit objectives, auditors need to perform tests and procedures designed to obtain sufficient, appropriate supporting audit documentation that will provide a reasonable basis for their opinions, judgments, and conclusions regarding these objectives.

The criteria used to formulate the basis for audit testing need to be clearly expressed in the methodology. This is critically important when auditors, not management, develop the criteria. Explanations should emphasize references from authoritative sources to show why the criteria are reasonable, logical, feasible, and appropriate.

OIG must plan the audit to reduce audit risk³ to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate⁴ to support the auditors' findings and conclusions. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.

The audit engagement should be designed to compile data needed to fulfill all reporting requirements.

4. Engagement Management

The audit process must be planned at the outset to ensure successful completion.

a. Timing

Estimated time and timeframes to perform the audit engagement need to be established; these must be substantiated as to how they were derived. Use the criteria from the *Expectations for Audit Assignment Management*. Discuss with the appropriate Headquarters division if past experience in performing similar engagement or analyses of program variables (e.g., the transaction volumes of county offices selected for review) make the AIG/A's expectations unreachable⁵. If survey time is approved by the DAIG/A, the engagement team has 45 calendar days to conduct the survey work following the entrance conference. GAGAS state that to be

² Analytical evidence is not a type of evidence, but actually analysis performed on/using documentary evidence.

³ Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud.

⁴ Appropriateness is the measure of evidence quality that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions. Sufficiency is a measure of the quantity of evidence used for addressing the audit objectives and supporting findings and conclusions.

⁵ If a determination is made that expectations are unreachable, confirm with AIG/A and applicable DAIG/A and document the determination and confirmation in (b)(7)(E)

of maximum use, the audit product needs to provide relevant information in time to respond to the needs of officials of the audited entity, legislative officials, and other users. Likewise, the information provided in the audit product needs to be current. Therefore, auditors should plan for the appropriate issuance of the audit product and conduct the audit engagement with these goals in mind. At the completion of the survey phase, the engagement team will brief the AIG/A, applicable DAIG/A, Headquarters Director, and staff.

b. Staffing

GAGAS require that the staff assigned to perform an audit engagement must collectively possess adequate professional competence for the tasks required. Supervisors (including the Assistant Director, Team Leader, or designated Senior Auditor) need to ensure that assigned staff have the essential skills that match those necessary to fulfill a particular audit mandate or scope. Audit management⁶ should also satisfy itself that assigned staff members clearly understand their individual tasks, responsibilities, and objectives before starting the work. Supervisors must ensure that less experienced staff members will be provided sufficient on-the-job training during the course of the audit engagement.

Audit management must take such steps, as are necessary, to ensure the independence of assigned staff. Moreover, if consultants, experts, and/or specialists (to include USDA personnel, where applicable) are used, reasonable assurance regarding their proficiency and independence must be obtained. For example, a statistician shall be involved in the planning and analysis of any audit engagement involving the use of statistical sampling per IG-7323.

The issuance of the assignment letter marks the beginning of work on an audit engagement. To make full use of staff resources, almost all of the engagement team needs to be ready to begin work on the new assignment when an assignment letter is issued. To meet this objective, once a draft audit product is issued, non-supervisory⁷ engagement team members should end full-time participation in an ongoing project to be ready to start their next scheduled assignment.

c. Audit Seminar

If a Director or Assistant Director determines a seminar is to be held, it should be designed to provide all auditors a full and complete understanding of the audit issues, objectives, and procedures.

⁶ Audit management is defined as the AIG/A, DAIGs/A, Directors, and Assistant Directors.

⁷ For this directive and passage, a supervisor is characterized as audit staff performing the Assistant Director, Senior Auditor, Auditor-in-Charge, or Team Leader role or someone who has been informed by management that they are performing these roles. Many times, the Assistant Director performs both the supervisory and managerial role for an engagement.

d. Internal/External Communication

Interaction within OIG and with agency and/or other outside officials is essential to ensure the audit process is conducted as planned.

- (1) Legal advice, consultations, and/or opinions are to be obtained, as needed, at the beginning and throughout the course of the audit engagement. If this information is to be used to support an audit conclusion, it must be obtained or confirmed in writing. If a written opinion is not likely to be readily forthcoming in a timely manner, a memorandum of conversation should be prepared and sent to the attorney with a request for written concurrence.
- (2) Questions concerning the audit criteria must be resolved, in writing, with agency management prior to the start of the engagement.
- (3) All contacts with the OIG Office of Counsel, Office of Management and Budget, USDA's Office of the General Counsel, or Congressional staff must first be coordinated with the responsible DAIG/A through the appropriate Headquarters division.
- (4) Provide written notification to the agency that will be audited. Auditors should communicate the specific nature as well as general information concerning the planning and conduct of the audit engagement, how the audit results will be reported, and information the agency may need to understand the objective, timeframes, and any data needs.

Agencies will be notified of the audit engagement by a memorandum (standard engagement letter). Within 2 weeks of opening the audit assignment in the management information system, the applicable DAIG/A will sign the standard engagement letter to the auditee(s), which should contain the following:

- (a) Title.
- (b) Objectives.
- (c) Scope and methodology, including sites to be visited, if known.
- (d) Request for management reviews/studies.
- (e) Request for status of regulatory changes.
- (f) Estimated or known start and completion dates.
- (g) Responsible OIG work unit, with names and telephone numbers of principals.
- (h) Request for agency engagement contacts.
- (i) Request for information or data that the agency should provide to facilitate the engagement (prepared by client (PBCs) or other audit requests) as an attachment to the memorandum.
- (j) Identification of any special arrangements or procedures that will be used to facilitate the engagement, if applicable.
- (k) Request for working space, systems, or internet access, and other needs, if applicable.

- (l) Solicitation of agency input regarding audit coverage and other issues of interest.
- (m) Statement that OIG will contact the agency to arrange for an entrance conference, if applicable.
- (n) Discussion of possible outcomes of the engagement, i.e., issue audit report, issue no-finding report, or possible interim report.
- (o) Reference to DR-1700-2 for explanation of the respective responsibilities of the auditee and OIG.
- (p) Request that the auditee be prepared to discuss internal control objectives and techniques.

The engagement letter will generally be transmitted prior to the beginning of field work. This enables the audit liaison to notify appropriate staff to solicit their input. Tailor the engagement letter to the assignment; a general version without engagement specifics is not permitted.

- (5) The entrance conference is a critical vehicle to collaborate with the auditee's management. Following *Expectations for Audit Assignment Management*, most entrance conferences will occur within 4 to 5 weeks of opening an assignment. The discussion at the entrance conference should center on the audit engagement's scope, objectives, methodology, program criteria, and potential recommendations. Request the auditee's management to provide input during the conference regarding the timeliness of audit results (factors that could potentially impact the timeframes of the audit engagement), and all known or suspected program weaknesses, including any fraudulent activities.

A memorandum to the auditee may be warranted to formally confirm key assertions made by the auditee's management (like interpretation of program criteria) or other unique agreements/arrangements.

It is expected that the engagement team will initiate fieldwork with the agency immediately after the entrance conference.

- (6) Agencies should be notified if significant changes are made to the audit plan (objectives, scope, methodology, and timing) during the course of the audit engagement. A change in scope or objectives would result in meeting with agency management to communicate and discuss the change.
- (7) Agencies should be kept fully apprised of audit results once they have been solidified. Interaction should be ongoing throughout the process. An essential segment of audit reporting is the auditee's explanation as to why the condition found existed. This can only be gleaned by posing the critical question of "Why?" (or "Why not?") to officials at the appropriate operating level. If appropriate, the action addressee, to include officials at the Under Secretary or Administrator level, should be updated during the course of the audit. Keeping an auditee informed during the entire process should also help to reduce the agency

management's response time to the audit product, because it will already be fully versed about the issues. Interim reports are another method of promptly alerting management to problem areas.⁸ Agencies should also be informed if audit numbers are changed to facilitate their tracking of the audit engagements.

- (8) An exit conference should be held with the auditee to discuss the findings, conclusions, and recommendations disclosed in the discussion draft. Corrective actions needed to address the recommendations should be discussed, and agreement with the monetary results appearing in any exhibits of the report should be sought.
- (9) If probable cause has been established that illegal acts may have occurred, auditors are to notify their supervisors for eventual referral to Investigations, or other specialists.

E. PROCEDURES FOR PREPARATION AND CONTENT OF ENGAGEMENT WORK PROGRAMS

Auditors will generate electronic engagement work programs using (b)(7)(E). Engagement teams will use the "OIG Audit Program Template" (generic term) that is available in the (b)(7)(E) directory to create engagement work programs. This template consolidates and compiles information entered into (b)(7)(E) forms (b)(7)(E) into an acceptable, tabular engagement work program format that requires minimal modification. This format will serve as the engagement work program for all executable portions of the audit: creation, approval, execution, and documentation.

Engagement teams will not expend significant resources to reformat or improve the appearance of the (b)(7)(E) engagement work program. Auditors will not convert the (b)(7)(E) (b)(7)(E). Additionally, the audit step indexation will follow (b)(7)(E). No other indexation is permitted.

Engagement teams will provide the engagement work program in (b)(7)(E) to the applicable Headquarters division at least 5 calendar days prior to the entrance conference for review and comment. It is the engagement team's responsibility to alert Headquarters staff that an engagement work program is ready for review. The engagement work program should normally be finalized in (b)(7)(E) (i.e., signed-off by the AIG/A as reviewer) no later than 7 calendar days following the entrance conference.

A formatted cover page is no longer used. The AIG/A approval will be documented via sign-off as the reviewer on the engagement work program in (b)(7)(E). The certification of Statement of Work Performed will be documented in the General Administrative steps. Also note that engagement work programs no longer include a table of contents.

⁸ All interim reports shall be utilized in accordance with IG 7401, *Interim Reports*.

1. Definition of Terms

Engagement work programs should define and explain abbreviations, acronyms, and/or unusual terminology unique to the auditee. A definitions listing, if needed, may be presented as an attachment to the engagement work program in (b)(7)(E)

2. Audit Plan

(b)(7)(E)

d. Audit Approach

This section documents information mentioned in this directive relating to audit control points, audit staff and schedules, audit documentation requirements, and duties and responsibilities.

e. Audit Reporting

This section documents the expectations regarding reporting findings and the use of interim reports. It mandates the use of the relevant directive for audit reporting.

f. Milestones

This section is compiled from the (b)(7)(E) listing. These milestone dates parallel the dates described in the *Expectations for Audit Assignment Management*.

3. Audit Procedures – General Administrative

All engagements must contain the General Administrative Steps as documented in the “OIG Audit Program Template” (generic term). **In order to ensure consistency and standardization across all audit engagement work programs, engagement teams will not change these steps or deviate from the steps within the template.**

4. Audit Procedures Other than General Administrative

Engagement work programs should provide sufficient written instruction and guidance for the audit staff to perform the audit engagement as planned and accomplish the objectives. Audit procedures may encompass one or more sections of the engagement work program, depending on the scope and approach of the audit engagement.

Engagement work programs must include a summary for each Component Group folder. Additionally, in the Procedure Summary, auditors are required to summarize the results of the procedures steps within that Procedure Summary in a separate procedure step titled Summary of Audit Results.

The detail required in the presentation of audit procedures depends primarily on the complexity of the audit engagement and the experience of the audit staff. Audit procedures should be written so they are clearly understood by the least knowledgeable member of the engagement team.⁹ Audit procedures should be developed in sufficient detail for all staff members to successfully accomplish the objectives of the procedures without restricting the staff’s initiative and ability to identify issues not addressed in the engagement work program. Audit engagement work programs should include the following components:

- a. Logical order or hierarchy for audit steps (i.e., the engagement work program steps could be designed in a cascading manner, such as examining the national office, then

⁹ The level of detail in engagement work programs is measured with the assumption that all engagement staff are knowledgeable of the audit topic and have performed adequate preparation steps that may include reading all background materials, attending a pre-audit workshop/conference, or conducting a walkthrough. The engagement work program, and its related level of detail, does not replace inadequate engagement planning or preparation.

State offices, test locations, test file-sampled items, etc.). This should be considered and planned before steps are entered into the Procedure Forms.

- b. The Purpose tab should be the test, task, or objective of the step. The Conclusion tab should adequately document the results of the Purpose, in essence answering the question or documenting the summation of the result.
- c. A description of the sampling technique, statistical/non-statistical selection methodology, task, review, evaluation, or analysis applied.
- d. For internal controls, an assessment of whether internal control has been properly designed and implemented. For those internal controls that are deemed significant within the context of audit objectives, auditors should plan to obtain sufficient, appropriate audit documentation to support their assessment about the effectiveness of those controls.

5. Other Requirements

Audit engagement work programs should also include:

- a. Any special or unique requirements and instructions dealing with such functions as audit oversight, supervision, pro forma document requirements, pre-designed computer applications, and audit document preparation.
- b. Stipulations that audit staff are to fully understand the program area to be audited, the audit objectives, and continually assess the appropriateness/productivity of the audit steps, procedures, methodologies, and costs/benefits of the related results.
- c. Guidance on the treatment and handling of testimonial evidence. Statements critical to the audit engagement should be corroborated by checks of records and physical tests, in order to permit reporting based on these facts rather than the oral evidence. If corroboration via documentation is not possible, written representations should be obtained. Testimonial evidence should not be relied upon, in any case, if there is concern that the individual was not fully knowledgeable or was biased. Nonetheless, where individuals' statements are used to support a finding, it is important to specify that the source was testimonial. In addition, if experts are used, written certifications that the results of their work are true and accurate must be obtained if the results are to be used to support audit conclusions.
- d. Supporting information and documents may be attached to the engagement work program when appropriate. For example, audit locations, informational charts and tables, pro-forma documents, etc., may best be presented as attachments. The attachments should be descriptively titled.

The appropriate Headquarters division should be actively involved in the development, review, and critique of engagement work programs. The approval of engagement work programs will be performed in (b)(7)(E) The AIG/A will approve all engagement work programs by signing off as the reviewer in (b)(7)(E) The division is responsible for recommending to the AIG/A whether signature is warranted. The applicable DAIG/A or Director may sign engagement work programs as delegated by the AIG/A.

Subsequent to the entrance conference, the engagement work program may be modified to reflect any changes arising from discussions with the auditee's management. If substantive changes are made, the engagement work program will be resubmitted for sign off by the AIG/A.

(b)(7)(E) should be used to store and manage recurring procedure steps to increase efficiency.

F. PROCEDURES AND CONTENT OF SURVEY PHASE INPUT TO ENGAGEMENT WORK PROGRAMS (if needed)

Not all engagements warrant a survey phase. If the engagement is one where auditors will need time to develop their understanding of the area under review, the use of survey time must be approved by the applicable Deputy AIG/A and completed within 45 calendar days.

If an audit engagement requires a survey phase, a draft engagement work program will be provided to the applicable Headquarters division at least 5 calendar days prior to the entrance conference for review and comment. This engagement work program will include the standard procedures included as part of all programs, and the procedures to accomplish the survey phase (familiarization, identification, planning, and testing).

A significant aspect of the survey phase is a preliminary identification and evaluation of internal controls as they relate to the audit objectives. The survey process should include, but not be limited to, the following phases.

1. Familiarization with:

- a. Agency or program objectives.
- b. Legislative history, laws, regulations, legal opinions/decisions, and agency policies and procedures.
- c. Management information and accounting systems,
- d. Operating procedures and delegations of authority.
- e. Age of program or changes in its condition. Size and scope of the activities under review.

- f. Organization and staffing. Pay particular attention to major reorganizations and management changes. Where practical, the period to be reviewed should be limited to, or at least emphasize, the tenure of existing top management.
- g. Prior OIG audit, investigation, and inspection reports, as applicable.
- h. Prior, current, and planned non-Federal and GAO audits, as applicable.
- i. Agency-performed risk assessments, conducted pursuant to the Improper Payments Information Act, Federal Managers' Financial Integrity Act (FMFIA), and Government Performance and Results Act (GPRA). (Auditors must obtain copies of such risk assessments and include them in the audit documentation. If the agency did not perform such risk assessments, or has no documentation to support the performance of such risk assessments, assigned auditors must notify the Assistant Director.)
- j. Agency-performed or commissioned internal and external reviews and studies, and Independent Public Accountant reports, as applicable.

2. Identification of:

- a. Areas susceptible to fraud, abuse, and waste.
- b. Profile data for consideration in scoping survey and possible audit work.
- c. Concerns expressed by the Secretary or the Secretary's staff, agency officials, Congress, media, or others.
- d. Major weaknesses or deficiencies disclosed by prior audits and investigations, and the adequacy of corrective actions taken.
- e. Computerized data files for which computer-assisted audit techniques could be used to analyze program data.
- f. Areas that warrant a legal opinion, interpretation, or clarification.
- g. Assessable program criteria and interpretations.

3. Planning:

Develop the preliminary (survey) objectives, scope, and methodology.

4. Testing:

Determine if the agency's FMFIA report disclosed any applicable material weaknesses. If a weakness is identified, the following steps should be performed:

- a. Assess the adequacy of agency actions by determining if:
 - (1) corrective actions have been initiated or are planned, and
 - (2) the actions underway, or proposed, appear timely and appropriate to correct the condition cited.
- b. If the plan appeared adequate, test compliance with the actions taken to ensure adherence to the plan.

Perform a preliminary evaluation of internal controls. Document key event cycles using flowcharts and/or narratives. Perform the evaluation using the following methodology:

- a. Learn the system, nature, and timing of internal controls.
 - (1) Ask management how the system is supposed to work.
 - (2) Review written support (procedures, manuals, et al.) to determine if the system is properly documented and agrees with management assertions.
- b. Identify the controls to be evaluated.
- c. Determine if the system, as described, will prevent, detect, or correct errors/irregularities.
- d. Consider the types of errors/irregularities that could occur.
- e. Identify the internal controls that could prevent, detect, or correct errors/irregularities.
- f. Determine if the internal controls identified above are prescribed.
- g. Determine which internal controls warrant compliance testing. If internal controls appear adequate and govern vulnerable areas or are critical to key functions, conduct compliance tests.

If internal controls appear inadequate, there is no need to test the controls for compliance. If the control deficiency was material, consider immediately reporting the deficiency based upon this preliminary evaluation. If management was non-responsive to the results of the survey steps, expand the scoping of subsequent engagement tests and use any adverse results to support the need for improved internal controls.

Also test for compliance. For controls that appear adequate, determine if the necessary procedures were performed, how they were performed, and by whom they were performed.

5. Completion of survey phase:

The engagement team has 45 calendar days to conduct the survey work following the entrance conference. During this survey phase, the audit objectives should be solidified, the scope and methodology confirmed, and a focus developed to meet the audit engagement objectives. This focus includes developing additional audit procedures based on the knowledge gained during the survey phase. These additional procedures will be incorporated into (b)(7)(E) and a modified engagement work program will be generated that captures the results of the survey phase.

At the completion of the survey work, the engagement team will brief the AIG/A, DAIG/A, and Headquarters division staff. At this briefing, the engagement team will provide the draft modified engagement work program that will identify the areas of focus for detailed work. At the completion of the briefing, agreement will be reached by all parties on the focus of the audit.

The modified engagement work program should normally be finalized in (b)(7)(E) (i.e., signed off by the AIG/A as reviewer) no later than 7 calendar days following the aforementioned briefing. This is then considered the new official program for the engagement.

Engagement teams will schedule a meeting with appropriate agency officials to update them on the topics the audit will focus on. This meeting should be scheduled no later than 7 calendar days following the agreement reached with the AIG/A and all OIG parties.

G. SUPERVISION

Audit supervision involves providing sufficient guidance, direction, and oversight to staff assigned to the audit to ensure they address the audit objectives and follow applicable standards. Supervisors must stay informed about significant problems encountered, review the work performed, and provide effective on-the-job training. The nature and extent of the supervision of staff and the review of audit work may vary by audit engagement and experience level of staff assigned.

Effective supervision is essential to the successful completion of an audit engagement. Supervision plays a key role in Audit's quality control system, as supervisors are directly responsible for ensuring the detailed requirements of all applicable directives are met. Supervisors should inform their staff not only of what work they are to do and how they are to proceed, but why the work is being performed and what is expected to be accomplished. With experienced staff, the supervisor's role may be more general. Supervisors are expected to:

1. When appropriate, ensure auditees are informed of impending audits, audit objectives, scope, approach, audit sites, and estimated starting dates before fieldwork is initiated. An exception to this may be an audit with unannounced testing so as not to impair audit evidence.

2. Ensure timely entrance and exit conferences are held with appropriate officials at each audit site, and attend the conferences when appropriate.
3. Provide direction and guidance in a timely manner to ensure fieldwork is properly staffed, organized, and conducted to successfully and timely accomplish the audit objectives.
4. Provide appropriate guidance to consultants, specialists, and contractors assisting in the audit engagement and monitor the adequacy and timeliness of completion of their work.
5. Maintain knowledge and control of audit engagements in process through verbal or written progress reports, remain actively involved with developing results, and keep management timely informed of audit engagement progress, significant/sensitive issues, the need for staffing changes or increases, and actual or potential time overruns.
6. Provide direction and guidance regarding automated audit documentation, evidence, and hard copy evidence that may need to be treated as sensitive information and should not leave the control and custody of OIG. Additionally, inform auditors about their responsibility for safeguarding audit information and evidence in their possession.
7. Perform,¹⁰ document, and file supervisory reviews of audit work and audit documentation throughout the course of the audit engagement, and upon completion, ensure the following criteria are met:
 - a. The audit conforms to audit standards.
 - b. The engagement work program was followed unless a deviation was justified, authorized, and documented. (The Assistant Director/Senior Auditor will document the completion of the engagement work program by signing off as reviewer in (b)(7)(E) on the applicable Statement of Work Performed procedure step in the General and Administrative section.) Documentation is required to depict any deviation(s) from GAGAS, the approval to proceed with the audit engagement, and any impact of such deviation from GAGAS on the audit conclusions.
 - c. Audit documentation adequately supports findings and conclusions and provides sufficient detail to prepare a meaningful report in accordance with GAGAS.
 - d. The audit objectives were met. If the objectives were not met, the supervisor will ensure that the appropriate determination was made and documented in supporting audit documentation.
 - e. The audit engagement was conducted with due professional care.
 - f. Any issues or findings noted outside the audit scope/objectives are compiled. These issues are discussed with management and included in the engagement file or are

¹⁰ See IG 7323 for guidance on review frequency and timing.

documented for potential consideration/inclusion in future Annual Audit Plans.

- g. The (b)(7)(E) listing dates are updated to reflect the current status of the audit engagement on a timely basis. This will facilitate meeting the *Expectations for Audit Assignment Management*.
- h. The work performed, and judgment exercised by audit staff, are appraised during all phases of the audit engagement (See Exhibit A).

Audit management also has the responsibility to ensure the detailed requirements of all applicable directives for the engagement are met. Additionally, they have the responsibility to ensure supervisors meet the expectations as detailed in this directive, at the engagement level, and at the organizational level for all audit engagements in their purview.

Audit management will hold audit staff accountable using the various OIG methods and practices for addressing performance and conduct issues in accordance with other directives.

END

THE AUDIT PROCESS

Financial Audits – Audit Reporting

APPROVAL/TRANSMITTAL

This change completely revises and updates policy and procedures for reporting the results of financial audits, attestation engagements, and *Statement of Auditing Standards No. 70* “Reports on the Processing of Transactions by Service Organizations.” This supersedes IG-7315, dated September 29, 1997. Remove and destroy previous editions.

/s/

PHYLLIS K. FONG
Inspector General

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EXHIBIT

Exhibit A - Administrative Handling of the Audit Report

Distribution: IG, AIGs, Counsel, D/OCI, AOs,
Audit managers/supervisors and all auditors

Date: January 29, 2007

A. BACKGROUND

1. Applicability

Government Auditing Standards define two basic types of Government audits - Performance and Financial. This manual section applies to financial statement audits, attestation engagements, and *Statement of Auditing Standards (SAS) No. 70* "Reports on the Processing of Transactions by Service Organizations."

2. Types of Reports

a. Draft Report

The preliminary write-up of the results of an audit which provides the medium whereby OIG exercises quality control communicates audit results and obtains the auditee's views prior to issuance of the final report. The draft reporting process generally consists of the following phases.

(1) Working Draft

- The draft report prepared by the auditor and used for preparing and finalizing the Official Draft.

(2) Official Draft

- The referenced draft transmitted to the auditee for formal discussion with agency officials.

b. Audit Report

The final document signed and issued containing the audited *Performance and Accountability Report (PAR)* prepared by the auditee, audit opinion, and reports on internal control structure and compliance with laws and regulations.

B. POLICY AND PROCEDURES - FINANCIAL STATEMENT AUDIT

In communicating audit results to management officials and other interested parties, OIG personnel shall follow the procedures in this directive which incorporate and supplement *Government Auditing Standards* and, by reference, the American Institute of Certified Public Accountants (AICPA) standards for reporting of financial audits.

Specifically, *Government Auditing Standards* incorporate the following four AICPA generally accepted standards of reporting.

(B)

- a. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
- b. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
- c. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- d. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

For audits of financial statements in which auditors provide an opinion or disclaimer, auditors should report the scope of their testing of internal control over financial reporting and of compliance with laws, regulations, and provisions of contracts or grant agreements, including whether or not the tests they performed provided sufficient evidence to support an opinion on the effectiveness of internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements.

Agreed-upon procedures reports should contain an exhibit detailing the procedure applied and applicable results. The report should indicate that OIG is not accepting responsibility for the adequacy of the procedures applied.

Reports on the Processing of Transactions by Service Organizations (SAS No. 70's "Audit Opinions and Related Findings") are to be administratively handled similar to financial statement audits.

Reports on attestation engagements should include the following assertions.

- (1) The report shall identify the subject matter or the assertion being reported on and state the character of the engagement.
- (2) The report shall state the practitioner's (auditor's) conclusions about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated.

(B)

- (3) The report shall state all of the practitioner's (auditor's) significant reservations about the engagement, the subject matter, and if applicable, the assertion related thereto.
- (4) The report shall state that the use of the report is restricted to specified parties under the following circumstances:
 - (a) When the criteria used to evaluate the subject matter are determined by the practitioner to be appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria.
 - (b) When the criteria used to evaluate the subject matter are available only to specified parties.
 - (c) When reporting on subject matter and a written assertion have not been provided by the responsible party.
 - (d) When the report is on an attestation engagement to apply agreed-upon procedures to the subject matter.

Government Auditing Standards prescribe additional reporting standards for attestation engagements that go beyond the requirements contained in the AICPA. Auditors must comply with these additional standards when citing *Government Auditing Standards* in their attestation engagement reports. The additional *Government Auditing Standards* relate to:

- Reporting auditor's compliance with generally accepted government auditing standards (see paragraphs 6.29 through 6.31).
- Reporting deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse (see paragraphs 6.32 through 6.40).
- Reporting views of responsible officials (see paragraphs 6.41 through 6.45).
- Reporting privileged and confidential information (see paragraphs 6.46 through 6.48).
- Report issuance and distribution (see paragraphs 6.49 through 6.54).

Any deviations must be approved by the Assistant Inspector General for Audit (AIG/A).

(B)

In carrying out the above policy, the following standards shall apply.

- Reports shall be issued promptly to make the information available for timely use by management.
- The financial audit report will consist of the “Opinion, Report on Internal Control Structure” and a “Report on Compliance with Laws and Regulations.”
- The Headquarters Division Director will furnish a draft to the auditee prior to arranging for an exit conference. The report needs to be transmitted a minimum of 5 working days prior to the exit conference to provide the auditee with adequate time to become familiar with its contents. The auditee should be requested to have the agency's written position on the findings and recommendations in the reports available at the exit conference.
- Extracts of pertinent agency written comments should be incorporated to the draft report, if applicable.
- Send the audit to the appropriate recipient in accordance with IG-7217, “Transmittal and Distribution of Audit Reports.”
- The report(s) should be dated in accordance with AU § 530.
- Draft reports shall be appropriately marked on each page. The cover sheet of the discussion draft shall contain the statement below.

NOTICE - THIS DRAFT RESTRICTED TO OFFICIAL USE

This is a draft report prepared by the U.S. Department of Agriculture, Office of Inspector General, and is subject to further revisions before it is released in its final form. This draft is provided to program officials solely for their review and comments on the subjects reported. Recipients of this draft are not authorized to make any further distribution or release of this information except for official review and comments.

C. ISSUE PAPERS

1. Issue papers are to be used to formally communicate to management matters disclosed during the audit. Issue papers should be conveyed promptly, i.e., as soon as audit disclosures have been solidified. Issue papers provide management with early notification of matters of interest and a vehicle to substantiate the audit conclusion. Issue papers are not audit reports.

(C)

2. An issue paper is to be addressed to the agency's chief financial officer, or equivalent position, with copies provided to the agency liaison officer. Agency personnel should be provided the opportunity to formally discuss the issue paper. Written comments should be obtained from the auditee.

OIG shall provide informational copies to the appropriate Division Director and the Associate Chief Financial Officer (CFO), Office of the CFO (OCFO).

3. Issue papers should contain the following elements:
 - Issue number (i.e., FY-sequence number)
 - Subject
 - Description (a short summary of the matter to be discussed)
 - Recommendation
4. OIG shall provide final issue papers, containing the auditee comments and the OIG position, as appropriate, to the auditee agency liaison officer, OCFO, and OIG Division Director.

D. REPORT FORMAT

1. Financial Statement Reports

OIG uses a standardized report format to convey its audit results. (See [exhibit A](#) and IG-7316 for details regarding the administrative processing and issuance of audit reports.) All reports will have blue covers followed by a cover page depicting the audit's title in terms that explain the subject of the report. The cover page should also contain the report number, the month and year of issuance, and the name of the issuing region or division.

Each section of the report, as described below, shall start on a new page.

a. Transmittal Letter

Each audit report shall contain a transmittal letter bound within the inside cover of the report. The transmittal letter should include the following:

- (1) A statement mentioning the financial statements that were audited, the fiscal year for the statements, and the type of opinion rendered.
- (2) The status of management decision including the recommendations (by number) and report (i.e., Report on Compliance with Laws and Regulations) where management decision has been reached, as well as the recommendation(s) where management decision has not been reached.

(D1a)

- (3) The requirements set forth in Departmental Regulation 1720-1, "Audit Follow-Up, Management Decisions and Final Actions," when a response from the auditee is due.

b. Executive Summary

Each audit report shall contain an Executive Summary immediately following the transmittal letter. Pages should be numbered in small roman numerals in sequence. The Executive Summary should be as concise as possible while still conveying the needed information. It should generally run about two to three pages in length and should not exceed four pages. The Executive Summary should include the following subsections.

(1) Objectives

The major objectives of the audit should be summarized in this subsection.

(2) Results in Brief

This subsection provides the type of opinion and a brief overview of the most significant results and conclusions of the audit. Generally, the results should answer the audit objectives. The general condition of the most significant areas should be included in terms that place them in perspective and provide balance. Corrective action taken during the audit on major adverse conditions should be noted.

(3) Key Recommendations

Those recommendations that relate to the major findings described in the Results in Brief subsection should be summarized.

(4) Agency Position

The agency position to the key recommendations should be briefly stated. If there is disagreement, OIG's rebuttal position should also be included.

c. Table of Contents

The Table of Contents should follow the Executive Summary and also be numbered in Roman numeral sequence. The section should be headed and list the other report sections and their page numbers. Individual issues, findings, and recommendations should be given their own page numbers to facilitate access.

(D1)

d. Report of the OIG

OIG financial statement audits will result in an opinion on the fairness of the presentation of the statements in conformity with the stated basis of accounting. The report should be in conformance with applicable *Statements of Auditing Standards* and Office of Management and Budget (OMB) guidance.

e. Report on Internal Control Structure

This report is required for all financial statement audits. The report should be in conformance with applicable *Statements of Auditing Standards* and OMB guidance. If there are findings and recommendations, the report should reference the applicable section where the issues are discussed. Findings and recommendations should be consecutively numbered (1, 2, 3, etc.). The report should contain a summary of the auditee's evaluation of its internal control structure and a summary of OIG's evaluation of the auditee's internal control structure.

f. Report on Compliance with Laws and Regulations

This report is required for all financial statement audits. The report should be in conformance with applicable *Statements of Auditing Standards* and OMB guidance. If there are findings and recommendations, the report should reference the applicable section where the issues are discussed. Findings and recommendations should be consecutively numbered (1, 2, 3, etc.).

g. Recommendations

Corrective action taken during the audit shall be reported as a part of the related finding. If an acceptable time-phased corrective action plan was provided to the auditor during the course of the audit, a recommendation should be made nonetheless and the management decision accepted upon release. If documentary evidence is provided that the corrective action has been completed (final action achieved) during the fieldwork phase of the audit, the finding should be included in the report, but no recommendation is needed.

(b)(7)(E)

(D1g)

- (1) If a written response is provided at the exit conference, a summary of the agency's response followed by the auditor's position, as appropriate, should be included, set off as subsections. Non-concurrence must be comprehensively rebutted or a reference made to the modifications made in the report as the result of the agency written reply. This information should be sequenced in the following manner:
 - Recommendation (No.)
 - (Agency Name) Response
 - OIG Position
- (2) The agency response subsection should clearly describe the pertinent actions and timeframes proposed by the auditee in its written response to the draft report.
- (3) One of the most critical phases of the audit process is the determination to accept the agency's proposed management decision. For guidance in this area, refer to IG-7218, "The Management Decision Process."
- (4) If OIG agrees that the management decision is acceptable, based upon the agency's written response, the OIG position subsection will be limited to a statement of agreement. If the agency has proposed an alternative action to the recommendation that is nonetheless acceptable, the OIG position subsection should recognize this situation in conjunction with OIG's statement of agreement.
- (5) In all cases where the written response was deemed acceptable for management decision, the requirements needed to achieve final action must be identified in the "OIG Position" subsection.
- (6) If OIG does not agree with the management decision contained in the written response, state OIG's position and what the agency needs to do to gain OIG's acceptance.

END

AUDIT

Performance Audits - Reporting

APPROVAL/TRANSMITTAL

This manual section has been updated to reflect changes due to revisions to *Government Auditing Standards*; compliance with Section 508 of the Rehabilitation Act of 1973, as amended by the Workforce Investment Act of 1998; the adoption of new reporting processes and expectations; and the discontinuance of management alerts.

OIG personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail in instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

This supersedes IG-7316, Change 3, dated February 3, 2000. Remove and destroy previous editions.

SIGNED BY THE IG 8-25-2015

Phyllis K. Fong
Inspector General

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EXHIBITS

Exhibit A - Example of Report Exhibit on the Summary of Monetary Results

Exhibit B - Required Elements of Statistical Exhibits

A. BACKGROUND

Government Auditing Standards define three basic types of Government audit engagements: Performance, Financial, and Attestation. This manual section applies to performance audit engagements.¹ Performance audit engagements encompass a wide variety of objectives. These objectives include assessing: program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and/or to address other specialized circumstances.

Auditors must issue audit reports communicating the results of each completed performance audit engagement. The purpose of audit reports is to communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; make the results clear, concise, and understandable; make the results available to the public; and facilitate follow-up to determine whether appropriate corrective actions have been taken.

Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations. Effective recommendations encourage improvements in the conduct of governmental programs and operations.

Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions.

OIG's Office of Audit has implemented reporting processes and expectations to facilitate timely reporting and increase standardization. The most significant of these include:

- Use of a Managers' Consensus Building Outline (MCBO);
- Use of templates for audit product and related document content and format;
- Adoption of *OIG Procedures for Processing Official Draft Reports into Final Reports and for Publishing, Distributing, and Posting the Final Report*;
- Procedures to effect compliance with Section 508 of the Rehabilitation Act of 1973, as amended by the Workforce Investment Act of 1998; and
- The Assistant Inspector General for Audit's (AIG/A) *Expectations for Audit Assignment Management Memorandum*, issued November 22, 2011.

The drafting of an audit report is a shared responsibility between the auditors and the writer-editor on the team.

¹ Due to their unique nature, financial and attestation audit engagements are addressed in IG-7315, *Financial Audits – Reporting* and IG-7317, *Attestation Audits – Reporting*, respectively.

B. DEFINITIONS

1. Audit Documentation. Constitutes the principal record of work the auditors performed in accordance with standards and the conclusions that the auditors have reached. Audit documentation should contain a description of the work performed and the findings, conclusions, and recommendations that the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment. Audit documentation is an essential element of audit quality. 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 audit product; (2) aid auditors in conducting and supervising the audit; and (3) allow for the review of audit quality.

Terms such as working papers, work papers, or evidence are synonymous with audit documentation.

2. Audit Engagement. A work project in the Office of Audit which generally results in a written audit product. These engagements are typically classified as an audit, review, or attestation.
3. Audit Product.² A written narrative produced as a result of an audit engagement. Generally referred to as an audit report, but could be in other forms (review, opinion, compilation, etc.).
4. Discussion Draft. The referenced draft report transmitted to the audited entity for formal discussion at the exit conference.
5. Draft Report. The preliminary write-up of the results of an audit which provides the medium whereby Audit exercises quality control over the written product, communicates audit results, and obtains the audited entity's views prior to issuance of the final report. The draft reporting process can consist of the following phases: working draft, discussion draft, and official draft.
6. Final Report. The final released audit product including the audited entity's written response.
7. Interim Report. A stand-alone report of issue(s) that need the immediate attention of the audited entity's management prior to the completion of the engagement. Based on the

² In other directives, the Office of Audit technically refers to its audit results documents as audit products. Given the subject matter specificity of this directive (preparation of performance audit reports), Audit will use the general term "reports" when referring to audit products. For this directive, the words are synonymous.

entity's response to recommendation(s) made, management decision may be achieved on the recommendations(s) within the interim report before the related audit report is issued.

8. Managers' Consensus Building Outline (MCBO). An outline of the audit results created per the template maintained on the USDA OIG (b)(7)(E) site. The purpose of the MCBO is to facilitate stakeholder comprehension and agreement before audit product creation.
9. Official Draft. The final draft transmitted to the audited entity subsequent to the exit conference, reflecting revisions made, if any, with a request for a written response.
10. Working Draft. The working draft is an initial complete draft prepared by the auditors and submitted to audit engagement management for review.

C. POLICY

Performance audit reports shall be prepared in accordance with *Government Auditing Standards* and this directive. Before such a report is issued, sufficient and appropriate audit documentation must be obtained to afford a reasonable basis for the auditor's findings and conclusions in accordance with IG-7215, *Audit Documentation*. Additionally, as a matter of emphasis, all performance audit reports shall incorporate the *Government Auditing Standards*, Appendix I, Supplemental Guidance, Information to Accompany Chapter 7, Report Quality Elements.

All performance audit engagements shall generally have a writer-editor assigned to the engagement. Although the writer-editor is assigned at the onset of the engagement, the writer-editor becomes substantially involved with the engagement at the MCBO stage of report drafting. All engagement teams shall be assisted by a writer-editor for the creation of the MCBO with continuing assistance to be provided throughout the remainder of the reporting process.

Performance audit reports shall be prepared and published in accordance with the guidance, procedures, templates, and publishing files maintained on the USDA OIG (b)(7)(E) site.³ Auditors should review this site periodically and before creating a new performance audit reporting product as materials are updated periodically.

OIG audit products are generally subject to release to the general public and posted on OIG's website. Therefore, OIG audit reports shall be subject to an internal Freedom of Information Act (FOIA) review before release to the general public. Refer to IG-7216, *Preparation of Audit Reports for Release on Internet*, for further guidance.

³ The Assistant Inspector General for the Office of Audit (AIG/A) memorandum dated August 9, 2012, established the use of (b)(7)(E) for report production. The memorandum is available on the USDA OIG (b)(7)(E) site.

If an audit engagement is terminated prior to completion, a memorandum shall be conveyed to the management of the audited entity to briefly summarize the work performed and explain the reasons for terminating the audit. All audit engagements which have been formally initiated via an engagement letter and entrance conference, but which are to be terminated prior to completion, shall be closed out in this manner.

For findings which require immediate attention by management, an interim report should be considered. Refer to IG-7401, *Interim Reports*, for further guidance.⁴

D. PREPARATION OF MCBO

The drafting of the audit report is a shared responsibility between the auditors and the writer-editor. The engagement team's responsibility is to compose a report which is readily understood; succinctly conveys the audit results and the auditor's conclusions; persuasively states a case that changes are needed; and timely communicates the results of audit to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials. This is a formidable task. Although the foundation of an audit report is the supporting audit documentation compiled during fieldwork, professional judgment must be exercised in terms of how best to communicate the message, what constitutes significance, and what direction the recommendations shall take in the report.

The formulation of these judgments can be facilitated by convening all interested and knowledgeable audit staff at the outset of the report writing process. The potential findings and recommendations derived from the audit process shall first be compiled by the engagement team in (b)(7)(E) and then brought forward to the engagement's stakeholders⁵ in a story conference meeting. Prior to the story conference meeting, the applicable headquarters division is to assure that regional management has completed supervisory review of the findings (b)(7)(E) in (b)(7)(E) per IG-7314, *Engagement Planning, Programs, and Supervision*.⁶ The story conference meeting will serve as a platform for the audit team to explain and convince the stakeholders of the need to report the identified issues. At the completion of the conference, the

⁴ For some audit engagements, a decision regarding whether to continue fieldwork and subsequently draft a discussion draft report may need to be made. In either case, if the severity or egregiousness of the findings to date do not warrant completing fieldwork (e.g., necessity for additional testing when fundamentally the information technology system was not implemented correctly), a decision of whether to continue planned fieldwork or the value of additional fieldwork needs to be made. For some engagements, the decision may be to not conduct more fieldwork and the audit engagement shall transition to the reporting stage. For some engagements, the reporting stage may end with the issuance of the interim report. These decisions shall be made by the AIG/A.

⁵ These stakeholders include the applicable engagement team members, assigned writer-editor, applicable headquarters division(s), applicable DAIG/A, and the AIG/A. The stakeholders may also include representatives from OC.

⁶ Adequate supervisory review is evidenced by reviewer sign-off by both the regional Assistant Director and Director. This is required.

stakeholders shall mutually establish how the report should be developed. The story conference meeting shall result in an agreement on how best to present the audit's findings and recommendations in the report.

An MCBO serves as the basis for discussion at the story conference meeting. It guides discussion and presents the overall report message in the fundamental sections of the audit report. The preparation of the MCBO occurs near the end of the fieldwork stage of the audit engagement. Conceptually, the creation of the MCBO closes the fieldwork stage and initiates transition to the reporting stage of the engagement. The foundation and support for the MCBO, and ultimately the final report, is supporting audit documentation. Therefore, it is essential that engagement teams have complied with the policy and substantially completed the procedures in IG-7215, *Audit Documentation*, and IG-7314, *Engagement Planning, Programs, and Supervision*, before initiating the reporting process.

To foster this effort, an MCBO shall be prepared that sets forth the reportable issues, relevant causes and criteria, convincing effects, and overarching recommendations. The MCBO elements shall be brief⁷ but contain sufficient information to ensure understandability and to provide documentation that the audit team clearly understands the reportable issues.

Auditors shall use the MCBO template to prepare and publish an MCBO in accordance with the guidance, procedures, templates, and publishing files maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site before creating a new MCBO as materials are updated periodically. The MCBO shall be prepared and managed in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011.⁸

The MCBO is a draft, internal document that is subject to discussion and change. Auditors shall not share the MCBO outside OIG without the approval of the AIG/A. An MCBO does not have an accompanying transmittal letter.

An MCBO is not submitted to Headquarters until it is signed off as reviewed by the Regional Director and Assistant Director in (b)(7)(E)

⁷ The AIG/A has defined brief to be two or three sentences per MCBO element.

⁸ The AIG/A's *Expectations for Audit Assignment Management Memorandum* contains progressive timeframes for completion of key milestones in the Office of Audit's audit process. The intent of the memorandum is to guide the audit process to meet various management expectations. However, the professional audit process is fluid and various milestones are dependent on client actions and competing Office of Audit priorities. Therefore, there may be instances when the audit process will not match the expectations contained in this guidance. This is expected and should not be considered an exception when audit project files are reviewed. If such occurrences become habitual, however, Office of Audit management will address any concerns via the performance review process.

E. REPORT ELEMENTS

Government Auditing Standards require that audit reports contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with *Government Auditing Standards*; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. Audit uses standardized report elements to ensure report content requirements are met.⁹

Audit uses primarily three reporting products to communicate the results of audits. These products are: Discussion Draft, Official Draft, and Final Report.¹⁰ The following table depicts the report element and its application to the reporting product:¹¹

Elements	Discussion Draft	Official Draft	Final Report
Transmittal Memorandum	Attached	Attached	Included
Cover Page	Not used	Not used	Included
Table of Contents	Not used	Not used	Included
One Page Summary	Included	Included	Included
Background & Objectives	Included	Included	Included
Findings	Included	Included	Included
Recommendations	Included	Included	Included
Agency Response	Placeholder	Placeholder	Included
OIG Position	Placeholder	Placeholder	Included
Scope and Methodology	Included	Included	Included
Abbreviations	Included (if applicable)	Included (if applicable)	Included (if applicable)
Exhibits	Included (if applicable)	Included (if applicable)	Included (if applicable)

Additionally, a short narrative and link to the final report (.pdf) is posted on the USDA OIG Facebook page. The social media postings are managed, coordinated, and maintained by both the Writing and Publication Division (WPD) and the Information Technology Division (ITD).

F. PREPARATION OF DRAFT REPORTS

Conceptually, the writing of the audit report is a progressive process. It originates with either a working draft or discussion draft with reporting elements that evolved from the MCBO and continue to evolve as the reporting stage continues. The evolution of these elements requires that auditors continually update and document the report at all stages, as well as any supporting

⁹ A change to these elements may be appropriate in unique circumstances, which shall be approved by the AIG/A.

¹⁰ An interim reporting product entitled Interim Report is used to communicate issues that require immediate attention by audited entity management. Refer to IG-7401, *Interim Reports* for further guidance.

¹¹ The application terms are defined as follows: Attached – the element is attached to the reporting product as a separate document. Included – the element is included in the product as a section or element. Not used – the element is not used for the applicable reporting product. Placeholder – a placeholder is used in the reporting product to denote the location of future information for the element. Included (if applicable) – the element is included in the reporting product, if applicable, on a product-by-product basis.

documentation, as the reporting and editing process progresses. Auditors need to update reporting elements in the report and the corresponding supporting audit documentation (Issue Forms), findings and recommendations especially, as modifications occur throughout each stage of the reporting process.

The writing of the draft audit reports (including working (if applicable), discussion, and official drafts) is a shared responsibility between the auditors and the writer-editor. Draft audit reports are the complete preliminary write-up of the results of an audit engagement which provides the medium whereby Audit exercises quality control over the written product, communicates audit results, and obtains the agency perspective prior to issuance of the final report. For direction regarding draft interim reports, refer to IG-7401, *Interim Reports*.

1. Working Draft. The working draft report is an initial complete draft prepared by the auditors and submitted to audit engagement management for review. During the course of drafting the working draft report, various authors may draft various sections or elements of the report. Typically, the working draft report is the product where all these pieces consolidate and present an evolving, complete product for managerial review.

Generally, the working draft report is used by the engagement team and subject to review by engagement team management. It is created as an interim product before drafting the discussion draft report. Not all engagements will create a working draft report and its use is not required by the Office of Audit. Some engagement teams prefer to not use a working draft report and will decide to alternatively initiate drafting the report at the discussion draft stage. Other engagement teams prefer to create a working draft report for various reasons, including but not limited to: staff development, managerial preference, consolidation of findings, etc. Regardless of why it is used, the engagement team needs to maintain the focus on evolving the working draft report to the required discussion draft report. The resources spent on creating a working draft report should be commensurate with the need for a working draft report. Excessive resources should not be expended on creating/reviewing a working draft report when those resources would be better spent on drafting the discussion draft report.

There is no template¹² for a working draft report. However, when drafting a working draft report, engagement teams should follow the instructions regarding form and content for creating a discussion draft report as maintained on the USDA OIG (b)(7)(E) site. Additionally, working draft reports are typically reviewed at the engagement team work unit level. This does not preclude others from reviewing the working draft report; however, the decision for substantive reviews by others than those at the engagement team work unit level should be considered based on the value added from such reviews.

¹² There is no formal template for any stage of the report before the final report stage. However, there are non-template examples of draft reports.

2. Discussion Draft. The discussion draft report is the referenced draft report transmitted to the audited entity for formal discussion at the exit conference. It is created as an interim product before drafting the official draft report. The discussion draft report is the product that evolves the audit findings from the MCBO to the official draft report.¹³ Conceptually, it is the expansion of the reporting elements and format of the MCBO to the Office of Audit reporting format. Chronologically, the discussion draft report is created after agreement to the MCBO by the engagement team, DAIG/A, and AIG/A.

The discussion draft report serves internal and external purposes. Internally, the discussion draft report is cross-referenced to supporting audit documentation and subject to an unassociated referencing review in accordance with IG-7323, *System of Quality Control*. The discussion draft report is created by the engagement team and subject to formal review by Office of Audit management and others, as applicable.

OIG's Office of Counsel (OC) will review discussion draft audit reports for a variety of reasons. Examples include: (1) where the audit engagement team solicited or received advice from OC in conducting the audit; (2) where a finding or recommendation in the report pertains to compliance with a legal authority (statute, regulation, etc.) or suggests that the audited entity obtain legal advice from the USDA Office of the General Counsel (OGC) on an open legal issue; or (3) where the DAIG/A or AIG/A believes OC review is otherwise warranted or value added. As a matter of process, findings and recommendations for which OC advice has been received should be shared with OC as soon as the particular finding is cleared by the Director of the Audit Engagement Team and the applicable DAIG/A. This should be before the draft report is subjected to an unassociated referencing review so that the engagement team can ensure that all of the necessary audit documentation is recorded. As noted below, OC will also review the discussion draft report as it is cleared for release to the audited entity to ensure any additional questions have been resolved.

Externally, the discussion draft report is the initial format in which auditee's management receives the results of the audit engagement in a complete written audit product. Additionally, it is the means by which the management of the audited entity provides informal feedback on the audit engagement results at the exit conference.

¹³ Engagement teams may write a working draft report as they move from the MCBO to discussion draft report stage. Since a working draft report will evolve to a discussion draft report, engagement teams will follow the policies, guidance, procedures, templates, and publishing files prescribed for discussion draft reports when preparing working draft reports.

The executed discussion draft report shall be documented and maintained in (b)(7)(E) in accordance with IG-7323, *System of Quality Control*.

a. Creation

There is no template¹⁴ for a discussion draft report. However, engagement teams shall follow the instructions regarding form and content for creating a discussion draft report as maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically and before creating a discussion draft report as materials are updated periodically. The discussion draft report shall be prepared and managed in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011, and this directive.

The engagement team shall ensure the discussion draft report undergoes an unassociated referencing review, in accordance with IG-7323, *System of Quality Control*, prior to elevating the report to the appropriate DAIG/A.

b. Review and Approval

The engagement team shall submit the discussion draft report to the applicable DAIG/A for review and signature via the applicable (b)(7)(E) workflow(s). The engagement team will also provide a copy of the discussion draft report to the applicable headquarters division as a courtesy, but not for review of content. The engagement team is expected to provide the DAIG/A with the discussion draft report for review and comment within 30 calendar days after the MCBO story conference in accordance with *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011.

Within 3 calendar days of receiving the discussion draft report, the applicable DAIG/A will make a determination of whether the report is ready for review by the AIG/A. If the DAIG/A determines that the discussion draft report is not ready for review, the DAIG/A will meet with the engagement team to discuss the concerns, work with the engagement team to establish a timeframe for producing an acceptable report, and update the DAIG/A. Within 5 calendar days of receiving an acceptable discussion draft report, the DAIG/A and AIG/A will provide one consolidated file back to the engagement team with all comments/edits¹⁵ for that version. Engagement teams will incorporate all agreed upon changes into the discussion draft report within 3 calendar days.

¹⁴ There is no template for any stage of the report before the final report stage. However, there are non-template examples of draft reports.

¹⁵ (b)(7)(E)

OC will review discussion draft reports for which OC has provided advice, which include findings or recommendations regarding compliance with a legal authority, or where the DAIG/A or AIG/A find it beneficial. Within 5 calendar days of receiving the draft report, OC will provide one consolidated file back to the engagement team with all comments/edits for that version. Engagement teams will incorporate all agreed upon changes into the discussion draft report within 3 calendar days. The agreed upon changes will be cleared with OC.

The Inspector General and Deputy Inspector General will review all discussion draft reports. This review will be subsequent to OC's review where OC has reviewed the report. This review will be before the discussion draft report is provided to the audited entity. Within 5 calendar days of receiving the draft report, the Inspector General and Deputy Inspector General will provide the engagement team with comments/edits on that version. Engagement teams will incorporate all agreed upon changes in the discussion draft report within 3 calendar days, unless the comments/edits require additional substantive work.

At the conclusion of these reviews, the applicable DAIG/A shall sign discussion draft reports. Directors may sign draft and final reports if the AIG/A has specifically delegated such signatory authority.

c. Transmission

After completion of the (b)(7)(E) feedback workflow(s) and related reviews, the approved discussion draft report should be signed by the DAIG/A and delivered to the audited entity within 3 calendar days. The engagement team shall prepare the transmittal memorandum utilizing the Discussion Draft Memo template maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically as materials are updated as needed. Upon receipt, the applicable headquarters division shall transmit the discussion draft report to the audited entity prior to the exit conference.

The headquarters division and engagement team shall ensure the signed version of the discussion draft report was provided to the AIG/A's support staff for inclusion in the electronic Office of Audit permanent files. Headquarters division staff will confirm the file is documented in the electronic file storage.

When the engagement involves a non-Federal entity, the discussion draft report should be transmitted to and discussed with the Federal funding entity by the Office of Audit prior to transmittal to and discussion with the non-Federal agency. Arrangements for transmittal of the report and discussion with the non-

Federal entity should be made at the exit conference with the Federal entity. If the report contains data that may be considered sensitive or limited purview (FOIA considerations, information technology sensitivity, etc.), the transmittal memorandum shall disclose such facts to the readers. For any of these situations, the engagement team shall consult with the applicable DAIG/A and AIG/A regarding OIG external transmittal of the draft report.¹⁶

3. Official Draft. The official draft report is the final draft report transmitted to the audited entity subsequent to the exit conference, reflecting any revisions made, with an official request for a written response. It is created as an interim product before drafting the final report. Conceptually, it is the expansion of the reporting message to facilitate obtaining the auditee's management perspective. Specifically, it is the means by which the auditee's management provides formal feedback on the audit engagement results. Chronologically, the official draft report is created after the exit conference.

The official draft report serves internal and external purposes. Internally, the official draft report is cross-referenced to supporting audit documentation and subject to formal review by Office of Audit management. OC will also need to review official drafts prior to their release where there have been any substantive revisions to matters they have previously reviewed. Externally, the official draft report is the means by which the management of the audited entity provides a formal response to the report in accordance with *Government Auditing Standards*.

The executed official draft report shall be documented and maintained in (b)(7)(E) in accordance with IG-7323, *System of Quality Control*.

a. Creation

There is no template¹⁷ for an official draft report. However, engagement teams shall follow the instructions regarding form and content for creating an official draft report as maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically before creating an official draft report as materials are updated as needed. The official draft report shall be prepared and managed in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011, and this directive.

¹⁶ During the discussion and official draft stages, the AIG/A may decide that the report subject matter is so sensitive that additional precaution is needed to control release. For example, the reportable items may be subject to litigation, fraud, investigation, possible contract termination, or employee dismissal, etc.

¹⁷ There is no template for any stage of the report before the final report stage. However, there are non-template examples of draft reports.

b. Review and Approval

The engagement team shall submit the official draft report to the AIG/A for review and signature via the applicable (b)(7)(E) workflow(s). Once approved by the AIG/A, the official draft report shall be signed and prepared for delivery to the agency within 2 calendar days¹⁸ in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011.

c. Transmission

After completion of the (b)(7)(E) feedback workflow(s) and related reviews, the approved official draft report should be signed by the AIG/A and delivered to the audited entity within 2 calendar days¹⁹. The engagement team shall prepare the transmittal memorandum utilizing the Official Draft Memo template maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically as materials are updated periodically.

The transmittal memorandum specifies the response time to the official draft report and other information. Typically, the transmittal memorandum requests that the auditee's management reply within 30 days of the date of the transmittal memorandum and specifies that a consideration of concurrence with the report's findings, recommendations, and monetary results in exhibit A of the report be included. Additionally, the memorandum solicits any information that the agency believes OIG should consider before finalizing the report. With the approval of the AIG/A or applicable DAIG/A, the 30-day response period can be reduced when, for example: (a) the issues are not disputed and the corrective action plan required is not complex; (b) critical policy issues need to be addressed more promptly; and/or (c) other circumstances necessitate a more timely reply.

The headquarters division and engagement team shall ensure the signed version of the official draft report was provided to the AIG/A's support staff for inclusion in the electronic Office of Audit permanent files. Headquarters division staff will confirm the file is documented in the electronic file storage.

When the audit involves a non-Federal entity, the official draft report should be transmitted to and discussed with the Federal entity by the Office of Audit prior to transmittal to and discussion with the non-Federal agency. Arrangements for transmittal of the report and discussion with the non-Federal entity should be made at the exit conference with the Federal entity. If the report contains data that may be

¹⁸ Where delivery falls on a non-workday, Audit will adjust timing to accommodate timely delivery.

¹⁹ Ibid.

considered sensitive or limited purview (FOIA considerations, information technology sensitivity, etc.), the transmittal memorandum shall disclose such facts to the readers. For any of these situations, the engagement team shall consult with the applicable DAIG/A and/or AIG/A regarding OIG external transmittal of the draft report.²⁰

During some engagements, the discussion draft report is elevated to an official draft report at the close of the exit conference. Typically, this occurs when the management of the audited entity has no material revisions to the discussion draft report as a result of the exit conference or the exit conference is waived by the agency. In this situation, the discussion draft report can be designated as the official draft report. The engagement team shall prepare an elevation memorandum to promptly notify the audited entity that the discussion draft report was elevated to an official draft report and to request written comments. As such, the engagement team shall prepare the transmittal memorandum utilizing the Elevated Official Draft Transmittal Memo template maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically as materials are updated as needed.

The executed official draft report shall be documented and maintained in (b)(7)(E) in accordance with IG-7323, *System of Quality Control*.

d. Publication Processing

All official draft reports are subject to the Office of Audit publication process. Auditors and writer-editors shall process the official draft report in accordance with the procedures contained in the *OIG Procedures for Processing Official Draft Reports into Final Reports and for Publishing, Distributing, and Posting the Final Report* document maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically as materials are updated as needed.

G. PREPARATION OF FINAL REPORT

Conceptually, the transition from draft reports to a final report continues the progressive audit product writing process. It originates with the official draft report and the related auditee's official response to the official draft report. As with the preparation of draft reports, the reporting elements that evolved from the MCBO continue to evolve as the final reporting stage continues. The evolution of these elements requires that auditors continually update and document the report at all

²⁰ (b)(7)(E)

(b)(7)(E)

stages, as well as any supporting documentation, as the reporting and editing process progresses. Auditors need to update reporting elements in the report and the corresponding supporting audit documentation (b)(7)(E) findings and recommendations especially, as modifications occur throughout the later stages of the reporting process.

The writing of the final report is a shared responsibility between the auditors and the writer-editor. Additionally, official formatting and branding occurs at the final report stage of the report writing process in accordance with procedures as maintained on the USDA OIG (b)(7)(E) (b)(7)(E) site. For direction regarding final interim reports, refer to IG-7401, *Interim Reports*.

The final report is the released audit product including the agency's written response. It serves as the official document for the audit results and is a public document. Conceptually, it is the expansion of the reporting message to include the auditee's management perspective in accordance with *Government Auditing Standards*. Chronologically, the final report is created after the receipt of a response to the official draft report as provided by the auditee.

The final report serves internal and external purposes. Internally, the final report is cross-referenced to supporting audit documentation, subject to the unassociated referencing review process in accordance with IG-7323, *System of Quality Control*, and subject to formal review by Office of Audit management. OC may also need to review final reports prior to their release. This will be done on a case-by-case basis based on the sensitivities of the matter under review as well as whether the auditee (s) commented on any matter that OC provided review or advice on throughout the audit. Additionally, the final report provides the OIG position and evaluation of the auditee's response to the reported recommendations to address the audit findings. Externally, the final report serves as the official document of the audit. It is posted in various media and communicates the audit results to the public.

The final report shall be documented and maintained in (b)(7)(E) in accordance with IG-7323, *System of Quality Control*.

1. Creation. The final report is created utilizing the Final Report template maintained on the USDA OIG (b)(7)(E) site. Engagement teams shall follow the instructions regarding form and content for creating a final report as maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically and before creating a final report as materials are updated as needed. The final report shall be prepared and managed in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011, and this directive.

Auditors shall incorporate the auditee's response into the final report. Upon receipt of the auditee's response²¹ to the official draft report, the engagement team shall create the final report incorporating the auditee's response and OIG position within 3 calendar days.

2. Review and Approval. The engagement team shall submit the final report to the AIG/A for review and signature via the applicable (b)(7)(E) workflow(s). The AIG/A and support staff shall prepare the final report for signature and effect signature. Once approved by the AIG/A, the final report shall be signed and published within 7 calendar days of receipt of the auditee's response²² in accordance with the AIG/A's *Expectations for Audit Assignment Management Memorandum*, dated November 22, 2011.
3. Transmission. After completion of the (b)(7)(E) feedback workflow(s) and related reviews, the approved final report should be signed by the AIG/A and delivered to the audited entity within 2 calendar days²³. The engagement team shall prepare the transmittal memorandum utilizing the Final Report Memo template maintained on the USDA OIG (b)(7)(E) site. Auditors should review this site periodically as materials are updated as needed.
4. Publication Processing. All final reports are subject to the Office of Audit publication process. OIG complies with Section 508 of the Rehabilitation Act, as amended, which requires that those with or without disabilities have comparable access to Federal agencies' electronic information. Accordingly, auditors and writer-editors shall process the final report in accordance with the procedures contained in the *OIG Procedures for Processing Official Draft Reports into Final Reports and for Publishing, Distributing, and Posting the Final Report* document maintained on the USDA OIG (b)(7)(E) site and other Rehabilitation Act guidance. Auditors should review this site periodically as materials are updated as needed.

The writer-editor shall prepare the final report package, including the official report covers and final formatting.

Auditors and writer-editors shall prepare the additional post issuance report materials. After signature of the final report, the writer-editors, with assistance from the engagement team, shall prepare the multi-purpose one page summary and related social media summary.

²¹ The written response received from the audited entity should be prepared in compliance with Section 508 of the Rehabilitation Act of 1973, as amended by the Workforce Investment Act of 1998.

²² Ibid

²³ Where delivery falls on a non-workday, Audit will adjust timing to accommodate timely delivery.

Some final reports are subject to distribution limitations and designations.²⁴ For such reports, the engagement team and writer-editor shall coordinate release and required report notifications with the AIG/A and other OIG parties.

All final reports are prepared, distributed, and issued in accordance with IG-7216, *Preparation of Audit Reports for Release on Internet*, and 7217, *Transmittal and Distribution of Audit Reports*.

H. REPORT CONTENT - BACKGROUND

The Background report element provides information necessary to make the audit and related results understandable. It provides information on the legal authority for the audited organization, program, activity, or function; its history and current objectives; its principal locations; and similar information. Appropriate background information includes information on how the audited programs and operations work; key legal requirements; the significance of programs and operations (e.g., dollars, impact, purposes, and past audit work, if relevant); a description of the audited entity's responsibilities; and explanation of terms, and organizational structure. It may also include any significant constraints and unusual circumstances or events that affected the audited operations along with other information needed to allow an uninformed reader to put the audit results into proper perspective.

For audit follow-up engagements, the Background report section should reference the findings and recommendations provided in the prior report(s) as a basis for the follow up engagement.

Auditors shall draft the Background section of the audit report addressing the aforementioned concepts. The Background section in the report is compiled from the (b)(7)(E) tab. Via the (b)(7)(E) the inputted text serves as the basis for the Background section of the audit product report.

I. REPORT CONTENT - OBJECTIVE

The Objective report element should clearly depict what was assessed and what was to be determined during the conduct of the engagement. The engagement objective(s) can be thought of as questions about the program the engagement team sought to answer, based on evidence obtained, and assessed against criteria. Generally, the objective(s) evolved from the perceived audit need during the planning stage. The Objective report element provides some structure to the remainder of the report as findings are aligned with the objectives.

²⁴ For example, sensitive, FOIA-redacted, limited use, etc.

Auditors shall account for all of the engagement objectives in the audit report. Auditors shall report adverse conditions in the findings and recommendations section. For objective(s) where no findings exist, this fact is briefed in report summaries and discussed in reportable detail in the Objective report element.

(b)(7)(E)

Auditors shall draft the Objective section of the audit report addressing the aforementioned concepts. The Objective section in the report is compiled from the (b)(7)(E) tab. Via the (b)(7)(E) the inputted text serves as the basis for the Objective information section of the audit product report.

J. REPORT CONTENT - FINDINGS

The Findings report element shall detail the issues that warrant correction or improvement identified as a result of the audit engagement.²⁶ Findings are conditions that warrant correction or improvement or depict a state of noncompliance. Typically, findings are prefaced with a brief statement providing the overall condition, cause, effect, and criteria.

Auditors shall present in reportable language four²⁷ parts of a finding in the Finding element. Findings shall be developed in the following manner.

1. What we found (condition). The Finding element of condition is the facts with respect to the conditions, situations, and transactions noted and the audit judgment of inadequacy. Generally, reportable conditions stem from deficiencies in prescribed requirements or lack of compliance with requirements that are otherwise adequate as prescribed. Each condition must be significant (i.e., has enough impact to warrant corrective action) and the supporting audit documentation must contain sufficient, competent, and relevant evidence to support the conclusion reached. The conclusion must be fully depicted and not left to inference. Conditions reported in a prior audit should be disclosed and a description as to why the final action taken was inadequate to correct the deficiencies should be included.

²⁵ For example, objective(s) changes may result from scope limitations, combination of stated objective(s) for efficiency, deletion due to agency program changes, etc.

²⁶ For any positive findings (findings where Audit is acknowledging acceptable management actions related to an audit objective), the positive finding will be discussed briefly in the one page report summary with finding(s) details provided immediately after the Objective section in the report.

²⁷ Condition, cause, effect, and criteria.

2. Identify why it occurred (cause). The cause(s) should be analyzed to provide true insight into why conditions occurred. For example, auditors are commonly informed at the operating level that the reason for noncompliance was lack of awareness of a requirement. The reasonableness of assertions of this type should be evaluated to determine if the problem is potentially national in scope, i.e., management did not issue clear instructions to the operating level, or somehow unique to the office reviewed. If the requirement had been sufficiently conveyed by management, the question may then arise as to potential control deficiencies associated with office operations; for example, insufficient training on what needs to be done in the office. Explanations of this type should not, however, be accepted at face value and reported as such. The auditor will need to corroborate such facts and apply judgment.
3. Highlight the impact of the condition (effect). The effect provides the relative importance of the condition. Whenever practicable, dollar amounts or other quantifiable data shall be used to illustrate the materiality and significance of the condition. Caution must be exercised to ensure findings are fair and not misleading, and thus kept in a balanced perspective. The results of the review should not be projected over, nor inferred to be representative of, the universe of the activity unless the tested items were statistically sampled. The use of non-statistical mathematical extrapolations is prohibited.

Where statistical sampling was used to develop the impact of the audit finding, auditors shall include the statistical projection in the finding. Statistical projections must include a statement of the sampling precision. All projections require the use of an OIG statistician to derive the reportable metrics and language. The sampling design methodology, confirmation of audit sampling results, and any related projections shall be documented, maintained, and reported on in accordance with IG-7323, *System of Quality Control*. The inclusion of statistical results in the finding requires the approval of the applicable DAIG/A and/or the AIG/A.

4. Set forth the known or expected (criteria). The criteria sets forth the process (to include program criteria) prescribed (documented) by management. When management has not established criteria and the auditor developed it to support the findings, sufficient explanation should be provided showing the basis for the criteria, with emphasis on references from authoritative sources, to show why the criteria are reasonable, logical, feasible, and appropriate. Criteria derived from statutes or regulations may be paraphrased if lengthy or complex with the specific citation shown in a footnote.
5. What we did. Additionally, the finding should provide some limited detail as to the scope and methodology used to assess the specific activity being reported on in the body of the finding. This information is added to provide context to the finding and for comprehension.

Findings should be as brief as practicable without sacrificing completeness. To be brief, the finding should include only those examples and other data needed to illustrate the specific conditions, support the audit conclusions, and demonstrate that corrective action is warranted. Additional detailed examples (e.g., specific transactions) and other data shall be presented in exhibits, if needed. Where applicable, the audit sample or selection and the related universe (nationally and onsite) of the audited program, operations, or activity shall be described in order to place the finding in proper perspective.

Related findings shall be grouped and presented in sections to promote cohesiveness, readability, and understanding. This requirement is critical; segmentation allows the writer to show how several findings contribute to the same idea or overview, while keeping the finding short. Each section of aggregated findings shall normally answer the questions posed by an audit objective.

The concept of significance assists auditors when developing the report and related findings and conclusions. Significance is defined by *Government Auditing Standards* as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives.

When an agency-wide, material weakness²⁸ in internal control is disclosed, a statement will be made in the finding that the agency's upcoming Federal Managers' Financial Integrity Act of 1982 (FMFIA) report (Section 2)²⁹ should include the weakness. Issues that warrant inclusion in the agency's FMFIA report shall also include an explanation as to why the internal control weakness noted is considered to be material. Further, it should be noted whether the agency reported the weakness in prior years, if applicable.

When a material nonconformance that warrants inclusion in the agency's FMFIA report (Section 4)³⁰ is identified, a statement should be made that the nonconformance should be included in the upcoming FMFIA report. Further, it should be noted whether the agency reported the nonconformance, in prior years, if applicable.

Control deficiencies should be linked, as specifically as possible, to the *Standards for Internal Controls in the Federal Government* promulgated by GAO.

(b)(7)(E)

²⁸ Auditors shall consult the American Institute of Certified Public Accountants and the General Accountability Office's definitions of material weakness for contextual clarity.

²⁹ FMFIA Section 2 covers entity program internal controls.

³⁰ FMFIA Section 4 covers entity information technology controls.

(b)(7)(E)

When auditors conclude, based on sufficient, appropriate evidence, that possible fraud;³¹ noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse either has occurred or is likely to have occurred which is significant, within the context of the audit objectives, they should report the matter as a finding. Before drafting any reportable language, the engagement team shall consult with the applicable DAIG/A and AIG/A.

(b)(7)(E)

Engagement teams shall omit references that directly identify individual persons or personally identifiable information (PII) in findings. PII such as names, addresses, telephone numbers, dates of birth, social security numbers, farm and insurance policy numbers, etc. shall be omitted. The agency reply should also be redacted if it includes Privacy Act information, to include auditors' names. The names of companies, private organizations, etc., may be included in audit findings to clearly and completely state conditions reported, if needed. Where the inclusion of names is not essential and can be omitted, engagement teams shall employ coding (such as company A, company B, etc.) to provide anonymity in the report. When such coding is used, a key should be provided separately to the auditee.

For instances where a finding is supported by testimonial audit documentation, the engagement team shall disclose this fact in the body of the finding. The attribution should include the source of the testimonial audit documentation; identified by the source's title of position, not by name.

³¹ A determination of whether an act is fraud requires a determination by a court of law or other adjudicative body.

For instances where it is clearly evident that the auditee was already aware of a reportable deficiency and planned to take action, or if a deficiency was brought to the attention of the auditor by the auditee, these facts should be tactfully acknowledged in the report.

Engagement teams are encouraged to use visual aids to facilitate understanding in the Findings section of the report. The use of charts, graphs, exhibits, and other visuals, like photographs and maps, can be used wherever practicable in place of voluminous or complex narratives to better illustrate the reported condition.

Engagement teams will directly acknowledge the fact if an engagement is a follow up engagement. This is best reported by a short (one-or two-sentence) description of any prior finding(s) and a footnote reference to the previously issued report.

Auditors shall draft the Findings section of the audit report addressing the aforementioned concepts. The Findings section of the report is compiled from the (b)(7)(E) Via the (b)(7)(E) the inputted text serves as the basis for the Findings section of the audit product report.

K. REPORT CONTENT - RECOMMENDATIONS

Recommendations represent OIG's suggestions on how the adverse conditions should be rectified. Recommendations shall immediately follow the narrative of the Finding section. Engagement teams shall number recommendations sequentially.

Auditors shall present in reportable language the fifth element of a finding³² in the Recommendation element. Recommendations shall be developed in the following manner.

1. Engagement teams shall write recommendations in relation to the audit findings. Recommendations shall be directly related to the facts presented in the findings; they shall propose an action specifically noted as nonexistent or lacking in the condition described. Each recommendation shall relate the proposed solution to the cause of the conditions presented in the findings. If the agency proposed an acceptable method of corrective action, the recommendation could be that the agency takes that action. Additionally, a recommendation generally shall not merely state that a certain regulation shall be complied with, or restate the existing requirements, but shall state what action is necessary to foster future compliance with the regulation. Furthermore, recommendations shall be achievable, cost effective (unless compliance with legal requirements or health and safety concerns are at issue), and action-oriented. Engagement teams shall avoid "soft" terms³³ when writing action statements in recommendations.

³² The recommendation.

³³ Soft terms are defined as verbs which do not elicit a definitive auditable action. Examples of soft terms include remind, emphasize, encourage, instruct, etc.

2. Engagement teams shall write recommendations that facilitate achieving final action. Recommendations shall clearly set forth what needs to be done to ensure agency comprehension and to enable the Office of the Chief Financial Officer to determine if corrective action, once taken, fulfills the purpose and intent of the recommendation. For example, if the recommendation calls for the agency to establish internal controls, the minimum requirements needed shall be delineated. Further, consideration shall be given to recommending that the agency establish a monitoring mechanism to provide assurance that prescribed internal controls have been implemented and are functioning effectively. In other words, revising operational guidance by establishing internal controls which are ignored does not mitigate the finding. Recommendations shall be restricted to a single respondent; the same recommendation to multiple parties makes the final action tracking process unduly complex and increases the likelihood of erroneous judgments as to whether final action has been achieved.
3. Some recommendations address certain legal or investigative matters. Engagement teams should additionally confer with OC in articulating recommendations dealing with legal matters. Recommendations soliciting a referral to OGC or the CG for legal opinions³⁴ shall also clearly state that the decisions shall be implemented in a timely manner (specifying the number of days) upon receipt. (b)(7)(E)
(b)(7)(E)
4. Engagement teams shall ensure quality control when recommending reportable recoveries. When recoveries are recommended, total dollars reported in the recommendation(s) for recoveries shall reconcile to the total dollars reported for recovery in the report's Summary of Monetary Results (exhibit A). Engagement teams shall ensure the basis for any monetary results in the report is described. Specifically, the engagement team shall fully explain how the monetary results were computed (if applicable).

(b)(7)(E)

³⁴ As noted earlier in this Directive, OC will be involved with reviewing findings and recommendations regarding compliance with a legal authority.

The (b)(7)(E) Audit Reference Tables provide the various definitions to be used, the criteria, and any limitations on reporting for monetary recoveries. (b)(7)(E)
(b)(7)(E)

5. Engagement teams shall report corrective actions taken during (and as the result of) the audit. If an acceptable time-phased corrective action plan (or evidence of final action) was provided during the course of the audit, a recommendation should still be made and the management decision accepted upon release. In some instances, the corrective action may be incomplete, or deal only with the specific deficiencies cited in the finding, and not be sufficient to fully respond to the recommendation. Recognition shall be given for the action taken; however, the finding must make clear what is needed in addition and an appropriate recommendation should be made

Auditors shall draft the Recommendations section of the audit report addressing the aforementioned concerns. The Recommendations section of the report is compiled from the (b)(7)(E) tab(s). Via the (b)(7)(E) the inputted text serves as the basis for the Recommendations section of the audit product report.

L. REPORT CONTENT - AGENCY RESPONSE

The Agency Response report element shall detail or paraphrase the auditee's response to each recommendation, to include concurrence with any monetary results on exhibit A to the audit report, contained in the Official Draft report.³⁵ As detailed in the final report section of this directive, this section provides the documentation of the auditee's response to the reported recommendation to address the audit finding in accordance with *Government Auditing Standards*. Generally, this section briefly states the agency position on the relative recommendation.

The agency response section should clearly describe the pertinent actions and timeframes proposed by the agency in response to the recommendation. If the response is succinct, it should be reported verbatim. If the reply is excessively lengthy, or contains superfluous information, the agency response subsection should be paraphrased or summarized. This decision shall be made in conjunction with the engagement team's management. Engagement teams shall apply considerable due diligence to not misstate or misinterpret the response provided by the auditee. Additionally, the requirement of full disclosure for any abbreviated responses is met by attaching the agency's complete response intact as an exhibit to the audit report.

(b)(7)(E)

³⁵ If the auditee did not respond to the official draft, the absence of a reply will be reported.

(b)(7)(E)

Auditors shall draft the Agency Response section of the final report addressing the aforementioned concepts. The Agency Response section of the report is compiled from the (b)(7)(E) pane, (b)(7)(E) tab. Via the (b)(7)(E) the inputted text serves as the basis for the Recommendations section of the audit report.

M. REPORT CONTENT - OIG POSITION

The OIG Position report element shall detail OIG's acceptance or rebuttal of the auditee's response to each recommendation contained in the Official Draft report. One of the most critical phases of the audit process is the analysis, judgment, and determination to accept/rebut the agency's response and to achieve management decision for the recommendation. For guidance in this area, refer to IG-7218, *Management Decision Process*.

If OIG determines the auditee's response is acceptable, the OIG position report element shall be limited to a statement of achievement of management decision. Additionally, if the auditee proposed an alternative action to the recommendation that is nonetheless acceptable, the OIG position report element shall recognize this fact in conjunction with OIG's statement of agreement.

The reportable language for achievement of management decision is limited in the audit report. For recommendations where the agency response is deemed acceptable, the engagement team will positively affirm that judgment. Specifically, the OIG position report element shall state: *We accept management decision for this recommendation*. No additional language is needed or permitted. Any requirements, additional information, or directions needed to achieve final action shall be communicated on the *Achievement of Management Decision Form* in accordance with IG-7218.

If OIG determines the auditee's response is not acceptable, the OIG position report element shall be limited to a statement of non-achievement of management decision. For recommendations where the agency response is deemed not acceptable, the engagement team will positively affirm

³⁶(b)(7)(E)

(b)(7)(E)

the non-agreement judgment. Specifically, the OIG position report element shall state: *We do not accept management decision for this recommendation.* This statement shall be followed with a brief explanation as to why it is not accepted and what is needed for management decision.

Auditors shall draft the OIG position section of the audit report addressing the aforementioned concepts. The OIG Position section of the report is compiled from the (b)(7)(E) OIG Position tab. Via the (b)(7)(E) the inputted text serves as the basis for the OIG Position section of the audit report.

N. REPORT CONTENT - SCOPE

The Scope report element shall detail the boundary of the audit engagement and its direct connection to the audit engagement objective(s). Scope consists of the period of program activity under examination; the nature, timing, and extent of audit procedures performed; the identification of audit sites visited or locations where audit procedures occurred; and the reporting of any limitations in audit coverage. The engagement's scope shall ensure significant matters are adequately tested and evaluated to fulfill the audit engagement objectives.

The scope shall describe the period of audit coverage. The period of audit coverage includes 1) the period of program data reviewed³⁷ and 2) the period of audit fieldwork.³⁸ Additionally, when the audit engagement objectives include an evaluation of internal controls, the scope shall briefly detail the significant internal controls that were assessed as part of the audit engagement and the extent of that assessment.

The scope shall detail how the items reviewed were selected. Generally, sample items are selected statistically or non-statistically. If non-statistical selection criteria are used, information shall be provided as to how the specific locations, or other selection units, and specific transactions were chosen. Additionally, any biases³⁹ present in non-statistical selection methodologies shall be disclosed.

The scope shall detail the comparison of the program universe to what was actually reviewed per the audit engagement. Specifically, the scope shall compare the totality of the audit engagement objective-related program activity/information to the program review coverage obtained via the engagement. Additionally, scope shall place the audit coverage in perspective with the next highest level of program activity/information and with the total program activity/information at any sites or locations reviewed. (b)(7)(E)

(b)(7)(E)

³⁷ For example, we reviewed all loans obligated from fiscal year(s) 2009 to 2013.

³⁸ For example, we performed our audit fieldwork from December 2013 to September 2014. Audit fieldwork is defined as the span of time from the date of entrance conference to the date of the discussion draft audit product.

³⁹ (b)(7)(E)

The scope shall detail the information technology testing performed, or data reliability tests in lieu of testing, which established the extent of reliability of information technology-based data critical to the audit engagement's objective(s) in accordance with *Government Auditing Standards*. If the reliability of the information in the auditee's information technology environment or systems could not be determined, and this information was critical to achieving the audit engagement's objectives, the audit product shall clearly state the limitations, why the work could not be performed, and the impact.

The scope shall detail any problems encountered with the quality of the evidence audited, especially if there is reliance on unverified data. If data reliability was not established but the data were nonetheless used, a qualification to the *Government Auditing Standards* conformity statement is required.

The scope shall disclose any scope limitations experienced during the conduct of or related to the audit engagement. Auditors shall apply due diligence to avoid implying scope coverage was not extended. Specifically, the term limited testing shall not be used unless the level of testing was reduced due to a disclosed scope limitation.

An important factor in scoping is the potential use of other auditors'⁴⁰ work. A decision to use the work of other auditors requires additional planning to facilitate coordination. If auditors choose to rely on the work of others, certain procedures are required per *Government Auditing Standards*. The decision to include the use of other auditors in the scope of an audit engagement and the inclusion of another auditor's work in an OIG audit engagement requires the approval of AIG/A.

Auditors shall draft the Scope portion of the Scope and Methodology section of the audit report addressing the aforementioned concepts. This section is compiled from the (b)(7)(E) (b)(7)(E) tab. Via the (b)(7)(E) this subsection also serves as the basis for the scope and methodology section of the audit product report.

O. REPORT CONTENT - METHODOLOGY

The Methodology report element shall detail the nature and extent of audit procedures for gathering and analyzing supporting audit documentation to address the audit engagement objectives. Methodology generally relates to how the audit was conducted, the techniques used to gather supporting audit documentation, and the types of evidence relied upon (documentary, testimonial, physical, and/or analytical⁴¹). To achieve audit objectives, auditors need to perform

⁴⁰ Examples of other auditors include Federal, state and local; contracted; or independent public accountants (IPA) auditors. Additionally, other possibilities exist to supplement or complement audit engagements and should be considered where warranted.

⁴¹ Analytical evidence is not a type of evidence, but actually analysis performed on/using documentary evidence.

tests and procedures designed to obtain sufficient, appropriate supporting audit documentation that will provide a reasonable basis for their opinions, judgments, and conclusions regarding these objectives.

The criteria used to formulate the basis for audit testing need to be clearly expressed in the methodology. Audit engagement determinations and conclusions are supported by documented evidence. Reliance on physical evidence (e.g., the observation of inventory), analytical evidence (e.g., ratio analyses of financial data), or testimonial evidence (e.g., interviews of agency employees) should be disclosed in the methodology statement.

Some audit engagements experience delays during the conduct of the audit. Any significant delays encountered during the conduct of the audit engagement shall be explained in the methodology.

The methodology shall include the standard of conduct compliance statement for the audit engagement, as applicable. Specifically, as applicable, a statement shall be included that the audit engagement was conducted in accordance with *Government Auditing Standards*.⁴² A modified standard of conduct compliance statement and related reportable language requires the approval of the AIG/A.

Auditors shall draft the Methodology portion of the Scope and Methodology section of the audit report addressing the aforementioned concepts. This section is compiled from the (b)(7)(E) tab. Via the (b)(7)(E) this subsection also serves as the basis for the scope and methodology section of the audit product report.

P. REPORT CONTENT - ABBREVIATIONS

The Abbreviations report element shall list all acronyms or abbreviations used throughout the audit product report.

Q. REPORT CONTENT - EXHIBITS

The Exhibits report element shall detail any additional information for the audit product report. Generally, the purpose of exhibits is explanatory in nature. Audit product reports containing monetary exceptions shall include, as exhibit A to the audit report, a summary of monetary results.⁴³

⁴² The unmodified standard of conduct statement is: *We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.* For engagements where this standard of conduct was not met, a modified standard of conduct statement shall be included as applicable.

⁴³ Refer to Exhibit A for an example of Exhibit A: Summary of Monetary Results. Engagement teams shall use this example as a model for all audit products in accordance with this directive.

Additionally, the auditee's response to the official draft shall be included as the last exhibit to the audit product report. The exhibit section should also detail any statistical sampling and results used in the engagement.⁴⁴

R. TERMINATION OF AUDIT ENGAGEMENT WITHOUT ISSUING A REPORT

In the rare instance, an audit engagement may be terminated without the issuance of an audit report. This decision requires consultation with and approval of the AIG/A. For such audit engagements, a close-out memorandum shall be documented in the (b)(7)(E) file and this memorandum shall be delivered to the auditee. Additionally, (b)(7)(E) shall be updated to reflect the closeout of the audit engagement.

S. PERFORMANCE REPORT RESULTS - COORDINATION WITH OTHER WORK UNITS

Engagement teams shall refer all performance audit reports with material internal control or compliance with laws and regulations findings to the Director, Financial Audit Operations Division for consideration for inclusion in the annual financial statement audit.

Engagement teams shall refer all performance audit reports with information technology findings to the Director, Information Technology Audit Operations for consideration for inclusion in the annual information technology security audit.

T. NON-USDA OIG PERFORMANCE AUDIT PRODUCT REPORTS

All non-USDA audit reports⁴⁵ shall be issued and coordinated per instructions from the AIG/A.

U. DISTRIBUTION OF REPORTS

Distribution of such reports shall be in accordance with IG-7217, *Transmittal and Distribution of Audit Reports*.

END

⁴⁴ Refer to Exhibit B for required elements.

⁴⁵ Examples include Single Audit and contracted engagements. All Single Audit engagement reports shall be obtained and issued in accordance with IG-7510, *Single Audits of State and Local Government and Non-Profit Organizations*.



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL



DATE: November 20, 2017

ASSISTANT INSPECTOR GENERAL BULLETIN NO.: A-18-001-7316

SUBJECT: Performance Audit Report Content Regarding Computer-Processed Data
Reliability Testing

DISTRIBUTION: All Audit Personnel

PURPOSE: The purpose of this bulletin is to provide guidance on how to address computer-processed data reliability testing in performance audits.

AUTHORITY: *Government Auditing Standards* (2011 Revision) at paras. 2.24-2.25 and 7.09-7.13.

POLICY: Performance audit reports must be prepared in accordance with Generally Accepted Government Auditing Standards (GAGAS) and IG-7316, Change 4, *Performance Audits – Reporting* (August 2015), including Part N, “Report Content – Scope,” and Part O, “Report Content – Methodology.”

PROCEDURES: IG-7316, Change 4, Part N, “Report Content – Scope,” details what information must be included in the scope section of a performance audit report. Among other requirements, Part N states:

The scope shall detail the information technology testing performed, or data reliability tests in lieu of testing, which established the extent of reliability of information technology-based data critical to the audit engagement’s objective(s) in accordance with *Government Auditing Standards*. If the reliability of the information in the auditee’s information technology environment or systems could not be determined, and this information was critical to achieving the audit engagement’s objectives, the audit product shall clearly state the limitations, why the work could not be performed, and the impact.

The scope shall detail any problems encountered with the quality of the evidence audited, especially if there is reliance on unverified data. If data reliability was not established but the data were nonetheless used, a qualification to the *Government Auditing Standards* conformity statement is required.

The above excerpt from Part N implements certain reporting standards in GAGAS paras. 2.23-2.25, 7.10-7.11, and 7.30-7.31, and fieldwork standards for obtaining sufficient evidence in GAGAS paras. 6.56-6.72.

Recently some performance audit reports have included the following language immediately before the GAGAS compliance statement:

During the course of our audit, we did not perform a review of any USDA electronic information system or the databases the agencies used to determine the overall reliability of the information obtained from them. Therefore, we make no representation regarding the adequacy of any agency computer system or the information generated from it.

Where such language is included in a performance audit report because work was not performed regarding computer-processed data reliability, auditors should provide the reason that they did not perform the review and describe the way in which not reviewing the information system impacted or could have impacted the audit.

A performance audit report should take one of three approaches to reporting on computer-processed data reliability, depending on the circumstances of the audit: (1) remain silent regarding computer-processed data reliability; (2) add language, where appropriate, to clarify report objectives; or (3) modify the GAGAS compliance statement. The circumstances under which each of those three approaches is appropriate are described below.

1. Remain silent regarding computer-processed data reliability.

A performance audit report should remain silent regarding computer-processed data reliability testing when the report does not use the computer-processed data to support the reported findings, conclusions, or recommendations. In most circumstances, information presented as background, context, or example does not require a computer-processed data reliability assessment. Refer to GAO, *Assessing the Reliability of Computer-Processed Data*, GAO-09-680G (July 2009) for additional guidance on whether a data reliability assessment is necessary, the extent of the assessment, recommended steps to conduct the assessment, and appropriate report language.

2. Add language, where appropriate, to clarify report objectives.

A performance audit report should include language to clarify broadly stated objectives that could lead a report user to believe certain topics were included and tested as part of the audit. In particular, language could be added to communicate that certain specified topics were outside the scope of the audit objectives. This option would be appropriate where the auditor has determined that a particular audit objective is not intended to include an assessment of a computer system, but where a report user might believe that an audit objective would include such an assessment. To clarify the report objectives, the audit report should include a statement that the auditors did not conduct an assessment of the computer system because it was not within the scope of the audit objectives.

3. Modify the GAGAS compliance statement.

A performance audit report should contain a modified GAGAS compliance statement either: (1) when the audit was performed in accordance with GAGAS, except for specific applicable requirements that were not followed, or (2) when, because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. Situations when auditors use modified compliance statements include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. Situations when auditors use modified GAGAS compliance statements also include where the auditor did not determine the reliability of computer-based data that was used to determine sample sizes which materially supported a finding, conclusion,

or recommendation. When auditors use a modified GAGAS compliance statement, the auditor should disclose in the report the applicable standards not followed, the reasons for not following the standards, and how not following the standards affected, or could have affected, the audit report and the assurance provided.

Auditors are required to perform data reliability testing if computer-processed information¹ was used to materially support findings, conclusions, or recommendations. The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. GAGAS paras. 6.56-6.72 require auditors to obtain sufficient and appropriate evidence to support their conclusions and to perform an overall assessment of evidence. Specifically, GAGAS para. 6.66 requires auditors to:

assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the audited entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.

If audit engagement teams believe there is a need to add report language to comply with GAGAS paras. 7.10 and/or 7.11, "Report Contents: Objectives, Scope, and Methodology," or to modify the GAGAS compliance statement in accordance with GAGAS para. 7.31, "Report Contents: Reporting Auditors' Compliance with GAGAS," the audit engagement teams should discuss this with the Assistant Inspector General for Audit (AIG/A).

EXPIRATION DATE: This AIG Bulletin will remain in effect until incorporated into IG-7316 or otherwise cancelled.



Gil H. Harden
Assistant Inspector General for Audit

¹ Computer-processed information includes data extracts, reports, and website forms and surveys. The data could be maintained on commonly used platforms such as (b)(7)(E) programs, a website, or any common USDA application system. See GAO, *Assessing the Reliability of Computer-Processed Data*, GAO-09-680G, (July 2009).

THE AUDIT PROCESS

System of Quality Control

APPROVAL/TRANSMITTAL

This manual section provides policy and procedures for the Office of Audit's system of quality control and referencing reviews. Revisions have been made to reflect updates to quality control elements per *Government Auditing Standards*, the implementation of a new audit documentation suite, and current terminology used by the audit industry.

Office of Inspector General (OIG) personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

This supersedes IG-7323, dated August 6, 2007, and AIG Bulletin No. A-14-001-7323, dated February 14, 2014. Remove and destroy previous editions.

Signed by the IG 10-29-14

Phyllis K. Fong
Inspector General

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A. BACKGROUND

Each organization performing audits in accordance with *Government Auditing Standards* must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. Additionally, organizations must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.

Government Auditing Standards state an audit organization should establish policies and procedures in its system of quality control that collectively address:

1. leadership responsibilities for quality within the audit organization;
2. independence, legal, and ethical requirements;
3. initiation, acceptance, and continuance of audits;
4. human resources;
5. audit performance, documentation, and reporting; and
6. monitoring of quality.

Audit organizations should establish policies and procedures for the monitoring of quality in the audit organization. Monitoring of quality is an ongoing, periodic assessment of work completed on audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice.

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. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

An unassociated referencing review is an important part of the overall quality control system of OIG. However, it does not replace supervisory review of audit products and supporting audit documentation. Unassociated referencing review steps are specifically designed to trace and reconcile facts, figures, dates, etc. from an audit product to supporting audit documentation and from one section of an audit product to another. Procedures require that the adequacy of evidence also be assessed. It is an independent examination and verification of the supporting audit documentation.

B. DEFINITIONS

1. Audit Documentation. Constitutes the principal record of work the auditors performed in accordance with standards and the conclusions that the auditors have reached. Audit documentation should contain a description of the work performed, as well as the findings, conclusions, and recommendations the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment. Audit documentation is an essential element of audit quality. 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 audit product, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.

Terms such as working papers, work papers, and evidence are synonymous to audit documentation.

2. Audit engagement. A work project in the Office of Audit which generally results in a written product. These engagements are typically classified as an audit, review, or attestation.
3. Audit product. A written narrative produced as a result of an audit engagement. Generally referred to as an audit report, but could be in other forms (review, opinion, compilation, etc.).
4. Cross-reference. A hyperlink or other executable relational link between two points in an audit engagement. Generally, it is a (b)(7)(E) hyperlink.
5. Cross-referencing. The act of linking an audit product directly or indirectly to supporting audit documentation via a cross-reference.
6. Engagement team. The audit team that conducted the audit engagement.
7. Referencing team. The audit team that conducts the unassociated referencing review. The members of the team cannot be members of the related engagement team or have incurred resource time on the audit engagement.
8. Unassociated referencing review. A process in which auditors (not associated with the audit engagement under review) review the audit product and trace, reconcile, verify, and validate the cross-references in the audit product back to supporting audit documentation.
9. Referencing comment. A qualitative advisory notice provided by the referencing team to the engagement team. Typically, the notice alerts auditors to an identified issue requiring corrective action.

C. POLICY

All OIG auditors, contractors, supervisors, managers, and staff are responsible for the quality of audits engagements conducted and the related audit products.

All OIG auditors, contractors, supervisors, managers, and staff are responsible for upholding and adhering to the Office of Audit's system of quality control in the conduct of audit engagements and related audit products.

All audit engagements shall be subject to periodic monitoring in accordance with the Office of Audit's system of quality control and this directive.

The Office of Audit will actively participate in the Council of the Inspectors General on Integrity and Efficiency's external peer review process.

D. PROCEDURES FOR MAINTAINING QUALITY IN THE CONDUCT OF AUDIT ENGAGEMENTS

The foundation for establishing and maintaining quality during the conduct of the audit engagement is grounded in our audit process. The following directives describe various elements of our system of quality control:

- IG-7211, *Audit Planning*
- IG-7213, *Auditor Independence*
- IG-7314, *Engagement Planning, Programs, and Supervision*

Auditors are required to adhere to the policies and procedures contained in these directives.

Throughout the conduct of an audit engagement, if any auditor feels that quality is not being upheld or maintained for an audit engagement, in total or in part, it is the auditor's responsibility to raise any concern to audit management.¹ If the auditor does not feel the concern was satisfactorily addressed, he/she should elevate the concern to the next level of audit management for additional consideration.

E. PROCEDURES FOR MAINTAINING QUALITY IN SUPPORTING AUDIT DOCUMENTATION

The foundation for establishing and maintaining quality in supporting audit documentation is detailed in IG-7215, *Audit Documentation*. Auditors are required to adhere to the policies and procedures contained in IG-7215. Auditors will apply the following additional procedures to facilitate ensuring quality in audit-supporting documentation.

1. Review and Electronic Signoff in (b)(7)(E)

(b)(7)(E) provides an electronic method to denote the review status of supporting audit documentation in the audit engagement file as detailed in the (b)(7)(E)

When supporting audit documentation is ready for review, the auditor electronically signs the supporting audit documentation as "prepared." Prepared means the supporting audit documentation is complete and presented in accordance with policies and practices. When the auditor signs as prepared, he/she asserts this claim. After the supporting audit documentation is prepared, a reviewer then accesses the same supporting audit documentation and reviews it to assess if it does meet policies and practices. If the reviewer

¹ For the purposes of this statement, audit management is defined as the Auditor-in-Charge, Senior Auditor, Assistant Director, Director, Deputy Assistant Inspectors General for Audit, or Assistant Inspector General for Audit.

is satisfied the supporting audit documentation meets policies and practices, he/she electronically signs the supporting audit documentation as “reviewed.” “Reviewed” means the supporting audit documentation has been supervisory reviewed and determined to meet policies and practice; it signifies the reviewer accepts the quality of the supporting audit documentation. When the reviewer signs as reviewed, he/she asserts this claim. If not, the reviewer must provide a supervisory review comment.

These determinations are vital to the Office of Audit’s system of quality control. The fundamental determinations of (1) completed and presented in accordance with policies and practices and (2) supervisory reviewed and determined to meet policies and practices provides reasonable assurance, at the supporting audit documentation level, that the organization and its personnel complied with professional standards and applicable legal and regulatory requirements.

Additionally, physical evidence (e.g., grain samples) requires review and electronic signoff. For physical evidence that cannot be entered into (b)(7)(E) auditors shall create a memorandum to the audit engagement project file, input the memorandum to the related procedure(s), and execute electronic signoff on the memorandum. At a minimum, the memorandum should describe the location of the physical evidence and its relevance to the engagement.

Signoff in (b)(7)(E) needs to be timely. Ideally, supporting audit documentation would be signed off as prepared when the auditor completes the associated work and is satisfied he/she is presenting documentation that is complete and presented in accordance with policies and practices. Supervisory review would occur immediately following the preparer’s signoff. However, rarely is that feasible or practical due to the audit process and a team auditing approach. This makes review and signoff similar to other audit practices that require effective managing throughout the engagement. The applicable director and assistant directors shall establish and communicate to assigned staff the preparation and review signoff timing expectations for each engagement.² These parameters should prevent occurrences where supporting audit documentation remains not reviewed for periods of time.³

² The *Government Accountability Office (GAO)/President’s Council on Integrity and Efficiency (PCIE) Financial Audit Manual* provides guidance regarding the documentation completion date for financial and financial-related engagements. Compliance with this directive should be assessed in the context of the *GAO/PCIE Financial Audit Manual*.

³ Conceptually, the duration between signoff as prepared and signoff as reviewed should not be longer than 2 business weeks without a justifiable reason (e.g., leave status, travel status, training attendance, etc.). This is a goal for the Office of Audit. It does not mean that all items need to evidence a reviewed state within 2 business weeks. Rather, it strongly suggests that review be initiated within 2 business weeks of signoff as prepared.

2. Cross-references Within Supporting Audit Documentation.

Throughout the conduct of the audit engagement, the engagement team shall cross-reference both manual and automated supporting audit documentation to other documentation, audit programs, summaries, and relative inputs entered in the audit engagement project file in

(b)(7)(E)

Detailed and accurate cross-references are critical to facilitate subsequent reviews and audit product cross-referencing (See

(b)(7)(E)

(b)(7)(E)

⁴).

Auditors should use cross-references to provide logical connections between relatable audit engagement project file inputs and to facilitate data retrieval and subsequent review. This requirement is fluid. A clearly defined level of cross-referencing needed between supporting audit documentation does not exist; it varies by audit engagement and the relativity and sensitivity of the documented topic. Additionally, the level of cross-references between supporting audit documentation is also a supervisory and managerial decision. Generally, it is a matter of the auditor's professional judgment. Auditors need to be cognizant of and make cross-references in supporting audit documentation that facilitate and provide reviewable evidence of compliance with professional fieldwork standards relating to audit documentation. Therefore, auditors should utilize cross-references in the audit engagement project file with the intent and goal of providing traceable, logical point-to-point references to facilitate users of the supporting audit documentation to determine similar conclusions.

It is the responsibility of supervisors and managers as they review the audit engagement project file to review and assess the level of cross-references in meeting the aforementioned goal. If supervisors or managers determine the level of cross-references to supporting audit documentation is inadequate, they should provide a supervisory comment requiring additional cross-references.

3. Confirmation of Audit Sampling Methodology Design.

Auditors routinely employ sampling methods in the conduct of audit engagements. Generally, sampling is categorized as nonstatistical⁵ or statistical.⁶ The Office of Audit uses both statistical and nonstatistical sampling to conduct audit engagements. Auditors shall document the sampling methodology for both nonstatistical and statistical samples⁷ in the audit engagement project file in

(b)(7)(E)

⁴ (b)(7)(E)

These documents are located on the (b)(7)(E)

(b)(7)(E)

⁵ A method of sampling that does not use statistical mathematics and methods. Rather, it is based on auditor's judgment; commonly referred to as a judgment sample.

⁶ A method of sampling based on statistical probabilities, mathematics, and methods.

⁷ The sampling methodology document shall describe: objective of the audit engagement, universe, sampling methodology, design (precision, error rate, and confidence level, if statistical), sample size, and any expected results based on our knowledge of the audit topic.

All sampling methodologies require the approval of the Assistant Inspector General for Audit. The methodology shall be adequately described in the engagement work program and subject to the related approval process. If the methodology is too detailed to include in the engagement work program, a separate approval meeting shall be scheduled with the Assistant Inspector General for Audit and the applicable Deputy Assistant Inspector General for Audit.

For a statistical sampling methodology, the engagement team will ensure the methodology has been verified and received and concur that it meets and supports the audit's objectives via a confirmation as depicted in Exhibit C, *Confirmation of Audit Sampling Design Methodology in Audit Engagements*.⁸

An OIG statistician administers the verification and concurrence process for a statistical methodology. The statistician shall deliver the methodology to an independent reviewer, who may be internal or external to OIG, and request confirmation regarding the soundness of the methodology (i.e., whether the design elements are statistically viable and will support the objectives of the audit). The independent reviewer will use whatever tools necessary to assess the methodology and will provide feedback. The statistician is responsible for ensuring that the reviewer is in concurrence, and if not, the statistician is responsible for making any needed design adjustments to the methodology. The independent reviewer will provide the statistician with documented concurrence that the sample design is sufficient to meet the objectives of the audit. The statistician shall provide this documentation to the audit team for inclusion in the audit engagement project file.

The confirmation process is conducted before approval of the sampling methodology by the Assistant Inspector General for Audit.

F. PROCEDURES FOR MAINTAINING QUALITY WHEN REPORTING RESULTS IN AUDIT PRODUCTS

The foundation for establishing and maintaining quality when reporting results in audit products is grounded in our audit process. The following directives describe various elements of our system of quality control:

- IG 7315, *Financial Audits – Audit Reporting*
- IG 7316, *Performance Audits – Audit Reporting*
- IG 7317, *Attestation Audits – Audit Reporting*
- IG 7401, *Interim Reports*

⁸ (b)(7)(E)

(b)(7)(E)

Auditors are required to adhere to the policies and procedures contained in these directives. Auditors will apply the following additional procedures to facilitate ensuring quality when reporting audit results.

1. Confirmation of Audit Sampling Results and Reported Projections in Audit Products.

All statistical sampling results and any related projections require a confirmation by an external reviewer. Auditors will ensure that all statistical results and projections are verified by the OIG statistician whenever a statistical sample is used in an audit engagement and statistical projections are reported.

The statistician is responsible for obtaining a confirmation of all statistical estimates and all associated numbers used in audit products. The statistician is required to send all raw data used for projections, together with the sampling methodology, to an independent external reviewer, generally another statistician. The independent external reviewer will use whatever techniques and software necessary to recalculate all proposed statistics. The statistician is responsible for ensuring that the reviewer's statistics match OIG's for all data.

Auditors shall document the confirmation products and results. The output from the work completed by the external reviewer will be provided to the auditors for inclusion in the audit engagement file. Additionally, the statistician shall provide a confirmation as depicted in Exhibit D, *Confirmation of Audit Sampling Results and Reported Projection(s) in Audit Products*, for inclusions in (b)(7)(E)

2. Cross-referencing Audit Products to Supporting Audit Documentation.

Before cross-referencing the audit product to appropriate, sufficient, supporting audit documentation, the engagement team Director and Assistant Director will ensure all supporting audit documentation, whether it supports the audit product or not, evidences supervisory review.⁹ Additionally, the engagement team Director and Assistant Director will confirm all supervisory review comments provided during audit engagement fieldwork have been satisfactorily resolved¹⁰ and disposed.¹¹ Essentially, if the supporting audit documentation has not been thoroughly reviewed, the engagement team and the related audit product are not ready for the cross-referencing process.

⁹ Simply stated, all evidence in the audit engagement project file must evidence supervisory review before a cross-referencing can start. This does not mean every item in the audit engagement project file reflects a current (b)(7)(E) state of reviewed (blue square) at the start of cross-referencing the audit product to the supporting audit documentation. However, it does mean that all completed supporting audit documentation has been reviewed at some point in the engagement, recognizing that some procedures (e.g., exit conference) cannot be completed at that time. Rather, some audit documentation may reflect a (b)(7)(E) state of edited since reviewed (red flag). Regardless of the state, the Director and Assistant Director must ensure the audit engagement project file reflects adequate supervisory review in accordance with professional standards and OIG policies and practices.

¹⁰ The auditor has addressed the supervisor's review comment.

¹¹ The supervisor has accepted the addressing of the comment by the auditor and has cleared the comment as completed; no further action is needed.

The engagement team is responsible for cross-referencing¹² the audit product and shall utilize audit documentation suite functions to conduct the cross-referencing of the audit product to appropriate, sufficient audit documentation.

The engagement team shall cross-reference the following metrics, elements, and reporting concepts¹³ directly¹⁴ to appropriate, sufficient supporting audit documentation:

- numbers
- dates
- timeframes
- names (e.g., personal, titles, offices, organizations, etc.)
- identifiers (e.g., sample numbers, unique identifiers, etc.)
- audit scope
- audit objectives
- findings (condition, cause, criteria, effect, recommendation)
- referenced legislation (e.g., laws, regulations, etc.)
- OIG determinations, conclusions, opinions
- exhibits, attachments, figures, charts, tables, etc.
- auditee responses
- abbreviations¹⁵

The remainder of the audit product shall be cross-referenced indirectly¹⁶ to appropriate, sufficient supporting audit documentation. Cross-references are incorporated into an electronic version of the audit product. Summarization of supporting audit documentation in a hierarchical approach (as detailed in the (b)(7)(E)) greatly facilitates the cross-referencing process.

The location and frequency of cross-references in the audit product and supporting audit documentation are a matter of professional judgment. Generally, a reference in the audit product (reporting terminus¹⁷) should be located as close to the metric, element, concept, or remainder narrative as possible. Correspondingly, the reference to the audit documentation (supporting terminus¹⁸) should be located as close as possible to the metric, element,

¹² Generally, this is performed using a (b)(7)(E)

¹³ Parts of the audit product (e.g., scope, objectives, findings, exhibits, agency response, etc.).

¹⁴ Directly is defined as a word-to-word match from the audit product to the supporting audit documentation.

¹⁵ For abbreviations, the word-to-word match is defined as matching, for consistency of use, the abbreviation in the narrative body of the audit product to the acronym listing in the exhibit. However, the use of the acronym is predicated by its existence, definition, and use in the supporting audit documentation in the engagement project file.

¹⁶ Indirectly is defined as not necessarily a word-to-word match, but a cross-reference to definitive statements that correlate, support, explain, and provide the reader and the unassociated referencing team with no doubt as to the sufficiency of the supporting audit documentation. Inherent in this concept is the fact that complete and sufficient supporting audit documentation evidences supervisory review, and all audit engagement fieldwork supervisory review comments were satisfactorily cleared by the engagement team. Indirect cross-references are not verbatim.

¹⁷ A location in the audit product where a cross-reference exists that references the supporting audit documentation.

¹⁸ A location in the audit documentation where a cross-reference exists that references the audit product.

concept, or remainder narrative in the supporting audit documentation. In supporting audit documentation, this may require adequately cross-referenced summaries and multiple cross-

references. Given sufficiently written and adequately cross-referenced summarizations,¹⁹ it is acceptable to have sizable sections of audit product narrative supported by limited cross-references.

The engagement team shall cross-reference the auditee's response²⁰ and OIG position sections of the audit product to sufficient, appropriate, supporting audit documentation. The engagement team shall cross-reference all exhibits and attachments to audit products to sufficient, appropriate, supporting audit documentation.

Cross-referencing the audit product to the supporting audit documentation should be the engagement team's primary focus. The engagement team should be dedicated to this task with minimal interruptions. It is the responsibility of the engagement team's management (Director and Assistant Director) to ensure staff dedication and prioritization to the act of cross-referencing. This approach facilitates a timely cross-referencing and limits distractions which could result in errors.

All products derived from cross-referencing audit product to the supporting audit documentation shall be documented in the referencing section of the audit engagement project file. This section shall contain the cross-referenced audit product.²¹

When cross-referencing of the audit product is complete, the engagement team Assistant Director will prepare, sign, and date Exhibit A, *Checklist for Unassociated Referencing Reviews*, of this directive and present the audit engagement to the engagement team Director for an unassociated referencing review. Then, the engagement team Director will notify the assigned referencing team that the audit product is ready for an unassociated referencing review and provide any specialized instructions and timeframes.

3. Unassociated Referencing Reviews.

The unassociated referencing review of an audit product is the tent pole around which the Office of Audit's system of quality control is centered. It provides the basis and assurance that the findings, recommendations, and other narrative in our audit products are credible to

¹⁹ In addition to the hierarchical summaries per the (b)(7)(E) (b)(7)(E) a hierarchical cross-referencing from the (b)(7)(E) details tab to the (b)(7)(E) text through to the audit product is a best practice which permits larger sections of audit product narrative to be supported by limited cross-references. This act also facilitates complying with the (b)(7)(E) (b)(7)(E)

²⁰ For instances where the auditee's response is paraphrased in the audit report, a separate working paper should exist which depicts the reduction of the official response to the reported paraphrased version.

²¹ Regardless of how the audit product is partitioned to effect cross-referencing, the engagement team shall document a completely cross-referenced audit product file in the referencing section of the audit engagement project file. Audit product files may reflect discrete, piece-meal cross-referenced sections to facilitate the process; however, a complete, fully cross-referenced version of the audit product must be created, managed, and maintained. The complete version should be self-evident or labelled as such in the audit engagement project file.

all users. At the Senior Audit Management, Deputy Inspector General, and Inspector General levels, it provides the assurance that the audit products on which they provide testimony to Congress are accurate and supported. To that end, an unassociated referencing review is one of the most important tasks required of an auditor in the Office of Audit. The unassociated referencing review is conducted by a referencing team comprised of an Assistant Director and other audit staff, as necessary, who are not involved with the audit engagement subject to review. The referencing team Assistant Director is directly responsible to the referencing team Director²² for ensuring the careful and thorough performance of the unassociated referencing review. The referencing team should collectively possess adequate professional competence for the tasks required. The referencing team Director is responsible for ensuring the professional competence of the referencing team.

The unassociated referencing review does not start until certain criteria are met. The unassociated referencing review shall not be initiated until the:

- a. engagement team Assistant Director has ensured the supporting audit documentation is in order;
- b. engagement team Assistant Director has ensured the audit product is complete, accurate, prepared in accordance with policy, and properly cross-referenced to the supporting audit documentation;
- c. engagement team Assistant Director has prepared, signed, and dated exhibit A; and
- d. engagement team Director concurs these criteria have been met.

Additionally, all audit steps and evidence should reflect electronic signoff as prepared and reviewed in (b)(7)(E). The referencing team Assistant Director shall confirm all audit documentation evidences supervisory review before initiating the unassociated referencing review. If the referencing team Assistant Director cannot carry out this responsibility based on the condition of the audit engagement project file, the referencing team Assistant Director shall notify the referencing team Director. The Director should effectively and efficiently resolve the matter.

An unassociated referencing review process shall be conducted prior to the issuance of the discussion draft of the audit product and, if necessary, prior to the issuance of the final audit product. At any time, a senior management official²³ may request an additional or subsequent unassociated referencing review. The referencing review and related documentation should be completed in accordance with the (b)(7)(E) and this directive.

All exhibits and attachments to audit products are subject to the unassociated referencing review.

²² The referencing team Director may be the Director responsible for the audit engagement or a Director from a different work unit depending on how the unassociated referencing review was planned and conducted.

²³ For the purposes of this statement, senior management official is comprised of Deputy Assistant Inspectors General for Audit or the Assistant Inspector General for Audit.

Referencing team members will conduct the unassociated referencing review. Referencing team members shall trace cross-references in the audit product to the supporting audit documentation presented by the engagement team to assess, reconcile, verify, and validate the cross-reference. Members shall confirm the direct and indirect cross-references presented by the engagement team. This confirmation is based on a verification and validation of the audit product narrative to the supporting audit documentation. In some instances, especially for indirect cross-references, there may not be a word-to-word match. In those cases, the member shall confirm the audit product narrative is contextually clear and readily derivable from the supporting audit documentation linked via the cross-reference. If not, the member should provide a referencing comment or consult with the engagement team.

Referencing team members will apply a professional approach²⁴ and good business sense when tracing cross-references. For some cross-references, the supporting terminus cross-reference may not be in the location where the referencing team member expects or desires it to be. Referencing teams shall not provide referencing comments from this perspective. Referencing comments should address the contextual sufficiency and adequacy of the cross-reference. Moreover, the referencing team member may have to contextually read multiple paragraphs or potentially the whole page, spreadsheet, image, etc., to assess, reconcile, verify, and validate the cross-reference. Similarly, this perspective may exist at the reporting terminus cross-reference in the audit product.

Referencing team members also assess the accuracy, adequacy, or sufficiency of the supporting audit documentation from a reporting perspective. As the referencing team conducts the unassociated referencing review, if anything comes to their attention regarding the accuracy, adequacy, or sufficiency of the supporting audit documentation, they should inform the engagement team Director of their concerns in writing with a courtesy copy to the applicable Deputy Assistant Inspector General for Audit. The Director shall resolve the concerns with both the engagement team and referencing team Assistant Directors and document the disposition of the concerns in a written response with a courtesy copy to the applicable Deputy Assistant Inspector General for Audit. This determination is a matter of auditors' professional judgment and should be managed in a constructive manner.

It is the referencing team's responsibility to take exception to unsupported or incomplete cross-references. Referencing team members shall document all noted referencing exceptions via a referencing comment utilizing the (b)(7)(E) Engagement team members shall document agreement or disagreement with the referencing team's comments utilizing the (b)(7)(E)

- a. If there is agreement, the engagement team makes the requested changes.

²⁴ A best practice to initiate tracing is for each member of the referencing team to conduct a cold read of the complete audit product.

- b. If there is disagreement, the referencing team Assistant Director shall discuss unresolved items with the engagement team Assistant Director. If unresolved items persist, the Assistant Directors shall elevate such items to the referencing team Director for resolution. The referencing team Director shall provide timely resolution of unresolved items.

The referencing team Assistant Director's role is not merely to identify items requiring corrective action. The referencing team Assistant Director takes an active role as a partner to produce the best audit product possible. Therefore, the referencing team Assistant Director shall:

- a. ensure resolution for all identified items requiring corrective action, and
- b. document the effected resolution for all identified items.

At no time should the engagement team or the referencing team be in an adversarial relationship. Moreover, it is a Director's responsibility to ensure an adversarial relationship does not exist.

Some audit products will require multiple unassociated referencing reviews. This will be necessary due to effects and impacts of edits made to the audit product after conclusion of the prior unassociated referencing review. In many cases, audit product language is edited after the draft audit product is issued. Findings are often edited based on OIG review processes, as well as edits resulting from auditee's comments or rebuttals to draft audit products, introducing new data into the audit product. All changes, regardless of origin, should be reviewed from two perspectives: (1) impact to the audit product as a whole and (2) discrete substantive changes. These perspectives include the context of the change in relation to the:

- a. effect of the introduction of new material to the complete audit product or topic of discussion, and
- b. effect of a change to key metrics, elements, concepts of findings and recommendations, and reporting concepts per professional standards.

The decision to resubmit the audit product for additional unassociated referencing review is dependent on these two conditions. The changes described above do not always necessarily constitute a substantive change to the audit product; however, they typically do.²⁵ These changes should be reviewed, considered, and addressed in the context of the audit product or topic of discussion. This is a matter of auditor's professional judgment. If, in fact, the changes do substantively change the audit product, the engagement team Director shall resubmit the changed portions²⁶ of the audit product for an additional unassociated referencing review to ensure the quality of the audit product. For audit products where the

²⁵ Any changes to metrics, elements, and concepts bulleted in section F.2 of this directive shall be subject to an additional unassociated referencing review.

²⁶ Ibid.

engagement team Assistant Director or Director has any concern about not resubmitting the audit product for additional unassociated referencing review, they shall take a conservative approach and resubmit the audit product for additional review out of an abundance of caution and dedication to quality.

As multiple unassociated referencing reviews are conducted, the current audit product review will be limited²⁷ to addressing substantive changes that were made to the audit product since the most recent unassociated referencing review. As a matter of practice, to the extent possible, the Director should utilize the same referencing team to facilitate an effective and efficient additional review. The engagement team Director shall confirm and document in exhibit A whether the final audit product unassociated referencing review is warranted.

The decision not to conduct an additional review on a changed audit product requires the confirmation of senior management in the Office of Audit. A decision by the engagement team Director to not reference a final audit product after changes have been made to the draft audit product must be discussed and confirmed with the applicable Deputy Assistant Inspector General for Audit or the Assistant Inspector General for Audit. A decision, justification, and confirmation²⁸ shall be included in the referencing section of the audit engagement file in (b)(7)(E) [REDACTED]

Both the engagement and referencing team Assistant Director, as well as the Director, shall complete and sign Exhibit C, *Unassociated Referencing Review Resolution*, to this directive. Additionally, the engagement team shall include a copy of the (b)(7)(E) [REDACTED] documenting all unassociated referencing review comments in the referencing section of the engagement project file. This action documents the completion of the unassociated referencing review process in accordance with the Office of Audit's system of quality control and documents engagement management's representation whether the audit product meets OIG requirements. It is the referencing team Assistant Director's responsibility to inform the applicable Deputy Assistant Inspector General for Audit or the Assistant Inspector General for Audit if all supporting documents to this directive (exhibits A, B, C, D, and (b)(7)(E) [REDACTED]) are not completed or documented in the audit documentation suite at the conclusion of the unassociated referencing review process.

In the conduct of the unassociated referencing review process, all supporting documentation to this directive (exhibit A, B, C, and D) shall be completed, signed, approved, and documented in the referencing section of the audit engagement file before submission for signature and release of the discussion draft audit product for all items, except the "no

²⁷ Although the application of the review is limited to the changed portions, the conduct of the review is not limited. Specifically, all unassociated referencing reviews are conducted in accordance with this directive. Therefore, the following must be conducted when applying this directive to subsequent unassociated referencing reviews: review initiation criteria are met; supporting audit documentation has been confirmed as reviewed; reviewing team is unassociated; cross-references are assessed, reconciled, verified, and validated; supporting documentation is assessed for accuracy, adequacy, and sufficiency from a reporting perspective; and the changes were reviewed from the two context relation perspectives.

²⁸ An email is sufficient as documentation.

substantive changes” confirmation which is required before signature and release of the final audit product.

All products derived from the unassociated referencing review shall be documented in the referencing section of the audit engagement project file.

G. PROCEDURES FOR PERIODIC MONITORING OF THE OFFICE OF AUDIT’S SYSTEM OF QUALITY CONTROL

The Office of Audit has established policies and procedures for monitoring of quality. These policies and procedures are designed to be ongoing periodic assessments of the system of quality as well as the work completed within the system. The Office of Audit analyzes and summarizes the results of its monitoring process and identifies any systemic or repetitive issues needing improvement. Any recommendations or corrective actions resulting from these monitoring activities are communicated to appropriate personnel.

1. Periodic Monitoring of System of Quality Control.

On an annual basis,²⁹ a Deputy Assistant Inspector General for Audit shall review all relevant audit directives for the Office of Audit. During this review, the Deputy Assistant Inspector General for Audit will review directives for clarity, content, revisions needed to incorporate changes to professional standards, adoption of best practices, integration of internal and external peer review feedback, enhancements to the audit documentation suite, and changes to the professional auditing industry.

At the conclusion of this review, the Deputy Assistant Inspector General for Audit will report to the Assistant Inspector General for Audit the results of the annual directives review via an annual quality report. Additionally, the report will include the annual compliance statistics from periodic monitoring reviews, any systemic or repetitive issues, and recommendations for corrective actions.

2. Periodic Monitoring of Audit Documentation Suite and Templates.

On an annual basis, a Deputy Assistant Inspector General for Audit in conjunction with the (b)(7)(E) shall review applied (b)(7)(E) modules and library templates for completeness and sufficiency. During this review, the Deputy Assistant Inspector General for Audit will review the suite for content, which includes such things as revisions needed to incorporate changes to professional standards, the adoption of best practices, integration of other suite modules, enhancements to the suites, and software version releases by the vendor.

At the conclusion of this review, the Deputy Assistant Inspector General for Audit will include in the annual quality report to the Assistant Inspector General for Audit the results of the audit documentation suite review.

²⁹ Once per fiscal year.

3. Periodic Monitoring of Audit Engagement Files.

The Office of Audit will review its audit engagement project files for quality on a periodic frequency. Headquarters Assistant Directors shall conduct the review, assessing audit engagement project files, using a review guide/checklist managed by the (b)(7)(E) (b)(7)(E)

Monitoring reviews will be conducted on a quarterly basis.³⁰ Headquarters Assistant Directors will nonstatistically select a sample of audit engagement project files from the current audit electronic portfolio in (b)(7)(E). Headquarters Assistant Directors will review the audit engagement project file utilizing the current version³¹ of the review checklist. Headquarters Assistant Directors will document their review on the review checklist providing comments for all exceptions observed. Headquarters Assistant Directors will provide the review checklist to the engagement team for resolution with a courtesy copy to the applicable Deputy Assistant Inspector General for Audit. Additionally, Headquarters Assistant Directors will record all exceptions on the quarterly compilation spreadsheet to facilitate calculations of internal compliance metrics. Headquarters Directors are responsible for ensuring the quality reviews are completed for their work units.

Engagement teams shall perform timely resolution for all exceptions noted on the review checklist. The engagement team Assistant Director has 15 business days to respond/effect corrective action. The engagement team shall enter the review checklist into the audit engagement project file in (b)(7)(E).

Staff in the Audit Business Operations Unit will compile quarterly and annual compliance statistics and provide them to audit management.

H. QUALITY ASSURANCE REVIEWS

The Office of Audit actively participates in the Office of Compliance and Integrity's quality assurance review program. The Assistant Inspector General for Audit will provide staff as requested to conduct reviews. The Office of Audit will respond timely to all quality assurance reviews and integrate agreed to recommendations into its policies and practices.

The results of any quality assurance reviews conducted during the year will be considered in the annual quality report to the Assistant Inspector General for Audit.

I. EXTERNAL PEER REVIEWS

³⁰ A frequency of four times per fiscal year.

³¹ The review checklist will be updated as needed by the (b)(7)(E)

The Office of Audit participates in The Council of the Inspectors General on Integrity and Efficiency's external peer review program. The Office of Audit will obtain an external peer review at least once every 3 years per *Government Auditing Standards*.

The Office of Audit will publicly post its most recent peer review report via various mediums, including on the OIG website.

The results of any external peer reviews during the year will be considered in the annual quality report to the Assistant Inspector General for Audit.

END

AUDIT

Auditor Professional Judgment and Competence

APPROVAL/TRANSMITTAL

This is a new manual section that complements and expands the Office of Audit's policy regarding the general standards contained in *Government Auditing Standards*.

OIG personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

Signed by the IG 02-04-15

PHYLLIS K. FONG
Inspector General

A. BACKGROUND

Government Auditing Standards establish general standards and provide guidance for performing financial audits, attestation engagements, and performance audits. The general standards, along with overarching ethical principles,¹ establish a foundation for the credibility of auditors' work. These general standards emphasize the importance of the independence of the audit organization and its individual auditors,² the exercise of professional judgment in the performance of work and the preparation of related reports, the competence of staff, and quality control and assurance.³

An auditor's professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of supporting audit documentation. Applying professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including following the independence standards and related conceptual

¹ For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors are also subject to Government ethics laws and regulations.

² IG 7213, *Auditor Independence* details the Office of Audit's policy and guidance regarding independence.

³ IG 7323, *System of Quality Control* details the Office of Audit's policy and guidance regarding its system of quality control.

framework; maintaining objectivity and credibility; assigning competent staff to the audit; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.

An auditor's consideration of the risk level of each audit, including the risk of arriving at improper conclusions, is also important. Within the context of audit risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported is an integral part of the audit process. Auditors have a responsibility to exercise professional judgment in planning and performing an audit. *Government Auditing Standards* do not imply unlimited responsibility, nor do they imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable due to factors such as the nature of supporting audit documentation and the characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit, but rather identifying, assessing, mitigating, and explaining them.

Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experience gained by an auditor in any time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. The audit organization's management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to perform the particular audit. Accordingly, audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. The nature, extent, and formality of the process will depend on various factors such as the size of the audit organization, its structure, and its work. Auditors performing work in accordance with *Government Auditing Standards*, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with *Government Auditing Standards*, should endeavor to maintain their professional competence through continuing professional education (CPE) in accordance with IG-3410, *Training and Development*.

Personnel assigned to conduct an audit engagement in accordance with *Government Auditing Standards* should collectively possess the technical knowledge, skills, and experience necessary to be competent for the audit engagement. Specifically, in relation to the audit objectives, the staff assigned to a *Government Auditing Standards* engagement should collectively possess:

- Knowledge of *Government Auditing Standards* applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed;
- General knowledge of the environment in which the audited entity operates and the subject matter;
- Skills to communicate clearly and effectively, both orally and in writing; and

- Specialized skills, in relation to their engagement assignments, in statistical or non-statistical sampling; information technology; specialized audit methodologies or analytical techniques; and specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject if the work calls for such expertise.

Auditors conducting financial and attestation audit engagements require additional knowledge. Auditors performing financial audits should be knowledgeable in U.S. generally accepted accounting principles or with the applicable financial reporting framework used, and the American Institute of Certified Public Accountants' (AICPA) general accepted auditing standards. Similarly, auditors performing attestation engagements should be knowledgeable in the AICPA general attestation standard related to criteria, the AICPA attestation standards for field work and reporting, and the related *Statements on Standards for Attestation Engagements*. Additionally, auditors engaged to perform financial audits or attestation engagements should be licensed certified public accountants, persons working for a licensed certified public accounting firm or government auditing organization, or licensed accountants in States that have multi-class licensing systems that recognize licensed accountants other than certified public accountants.

B. DEFINITIONS

1. Audit engagement. A work project in the Office of Audit which generally results in a written product. These engagements are typically classified as an audit, review, or attestation.
2. Engagement team. The audit team that conducted the audit engagement.
3. Professional judgment. The act of exercising reasonable care and professional skepticism. Professional judgment includes the application of the collective knowledge, skills, and experiences of all the personnel involved with an audit, as well as the judgment of the individual auditor. In addition to personnel directly involved in the audit, professional judgment may involve collaboration with other stakeholders, external specialists, and management in the audit organization.
4. Professional skepticism. An attitude that includes a questioning mind and a critical assessment of evidence.
5. Reasonable care. The condition of acting diligently in accordance with applicable professional standards and ethical principles.

C. POLICY

All auditors shall use professional judgment in planning and performing audit engagements and in reporting the results of the audit engagement.

The staff assigned to perform the audit shall collectively possess adequate professional competence needed to address the audit objectives and perform the audit engagement in accordance with *Government Auditing Standards*.

D. PROCEDURES FOR MAINTAINING PROFESSIONAL JUDGMENT IN THE CONDUCT AND REPORTING OF AUDIT ENGAGEMENTS

Engagement teams shall document professional judgment while planning and performing audit engagements in accordance with the following directives:

- IG-7211, *Audit Planning*;
- IG-7213, *Auditor Independence*; and
- IG-7215, *Audit Documentation*.

Engagement teams shall ensure that employees exercise professional judgment via the supervisory control processes as detailed in:

- IG-7314, *Engagement Planning, Programs, and Supervision*; and
- IG-7323, *System of Quality Control*.

Auditors are required to adhere to the policies and procedures contained in these directives.

E. PROCEDURES FOR MAINTAINING STAFF COMPETENCE IN THE CONDUCT AND REPORTING OF AUDIT ENGAGEMENTS

The engagement team shall document the competence of personnel assigned to the engagement by completing Exhibit A, *Checklist to Document Assigned Engagement Staff Fulfill the Competence Standard*, of this directive. This checklist shall be documented in (b)(7)(E) and evidence supervisory review and acceptance by the applicable Director and Assistant Director.

If concerns arise regarding the engagement team's competence, these concerns shall be raised by the engagement team Director to the applicable Deputy Assistant Inspector General for Audit or the Assistant Inspector General for Audit.

END


AUDIT

Interim Reports

APPROVAL/TRANSMITTAL

This is a new manual section that establishes the use of interim reports (formerly known as FAST reports) and provides instruction for use in the audit process.

OIG personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.


PHYLLIS K. FONG
Inspector General

A. BACKGROUND

Government Auditing Standards require auditors to issue audit reports communicating the results of each completed performance audit. Additionally, the auditor's goal is to be of maximum assistance, and provide relevant evidence in time to respond to legitimate needs of officials of the audited entity, legislative officials, and other report users. Therefore, timely issuance of reports is an important reporting goal for auditors. During the audit, the auditors may provide interim reports of significant matters to appropriate entity officials. Interim reports alert officials to matters needing immediate attention and allow them to take corrective action before the final report is completed.

B. DEFINITIONS

1. Agency Management Response. An official response provided by the audited agency addressing the reported recommendation(s). Agency responses must include the following:

- A plan of action to be taken on each recommendation and proposed completion dates for implementation of each corrective action.
- A copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records. If final action has occurred, evidence of collection would suffice. In certain unique circumstances, such as loans made to borrowers for ineligible purposes, accounts receivable cannot be established until the borrower's appeal rights have been exhausted. For final action in situations such as this, the agency must provide evidence that an account receivable has been established, disallowed costs have been collected, or disallowed costs have been modified during the appeals process.
- Justification for any recommendation and/or monetary amount not considered valid.
- A written agreement on reported monetary results (Attachment A of the audit report). If an acceptable time-phased corrective action plan has been proposed by agency management, but agreement has not been reached on the monetary results, the recommendations containing the monetary results in the (b)(7)(E) will nonetheless continue to be classified as unresolved.

2. Interim Report. A stand-alone report of issue(s) that needs the immediate attention of agency management prior to the completion of the engagement. Based on the agency's response to recommendations made, management decision may be reached on the recommendation(s) within the interim report before the related audit report is issued. The interim report and its results shall be referenced in the final audit report.
3. Final Action. The completion of all corrective actions and receipt of required documentation as specified in the Achievement of Management Decision Form. The Office of the Chief Financial Officer (OCFO) has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. OCFO will evaluate agency-provided documentation to support corrective actions taken and/or planned to determine if final action has occurred.
4. Management Decision. The state of a reported recommendation when OIG agrees with agency management's response to the subject recommendation. This includes agreement with the plan of corrective action(s) taken and/or planned, the proposed completion dates for planned corrective action(s), and actions for each reported recommendation. Management decision can also be achieved directly by the completion of final action.

A management decision cannot be considered achieved until OIG concurs or until a final determination is rendered by the Deputy Secretary (the Departmental Audit Follow-up Official) in cases of dispute. The effective date of the management decision is the date of OIG's correspondence to the agency expressing acceptance.

5. **Official Draft Report.** An OIG audit report formally provided to agency management for an official written response to the findings and recommendations.

C. POLICY

Interim reports will be issued for findings requiring immediate attention. Typically, an interim report will report on a single issue or finding requiring management's attention. Interim reports should not be used to report broad, systemic program or control deficiencies.

Interim reports are stand-alone audit products subject to *Government Auditing Standards*. Therefore, interim reports are subject to the system of quality control in place for audit reports. Thus, interim reports will require cross-referencing to audit documentation and an independent referencing review. Additionally, interim reports will contain the applicable standards compliance statement. The preparation and use of an interim report requires the approval of the Assistant Inspector General for Audit (AIG/A).

Draft interim reports will be issued within 7-10 calendar days of briefing the AIG/A. Final interim reports will be issued within 10 calendar days of receipt of the agency management response.

Actions necessary to achieve timely management decisions on interim reports shall be accomplished in accordance with the provisions of DR 1720-1, *Audit Follow-up and Management Decision*, issued November 2, 2011; *Expectations for Audit Assignment Management*, issued November 22, 2011; IG-7218 *Management Decision Process*; and this directive.

Interim reports are coded into (b)(7)(E) using the Form (b)(7)(E) Interim Report by the Work Unit.

D. CONTENT OF INTERIM REPORT

A draft interim report contains objectives, scope, and methodology; findings; recommendations; and the auditors' standards compliance statement. The final interim report contains all of the aforementioned as well as an agency response and OIG position. Refer to IG-7316 *Performance Audits – Audit Reporting* for content description for elements of an audit report. Interim reports are created using the Report template located on the (b)(7)(E) site.

Interim reports are numbered by adding a sequential parenthetical extension after the (b)(7)(E) audit number for the engagement. For example, the first interim report for engagement number 50601-0002-31 would be numbered 50601-0002-31(1). The second interim report for engagement number 50601-0002-31 would be numbered 50601-0002-31(2).

Findings (Issues) shall be stated briefly, but in sufficient detail to meet *Government Auditing Standards* and support the contention that prompt action is warranted. Recommendations shall be made for conditions requiring corrective action.

A final interim report should be no longer than 10 pages.

E. PROCEDURES FOR PREPARING AND ISSUING AN INTERIM REPORT

During the conduct of the engagement, if a work unit identifies an issue that needs to be reported through an interim report, the engagement team will schedule a briefing with the AIG/A, appropriate Deputy AIG/A, Headquarters Director and staff, and the engagement's Writer/Editor.

Generally, the following criteria should be used to assess if the issue warrants an interim report:

1. requires immediate action by management or those charged with governance;
2. has a direct and current impact on the engagement topic (agency program);
3. could affect human or agricultural safety or has the potential for loss of life;
4. could result in a material monetary loss to the program or poses a significant risk of such a loss; or
5. any other criteria deemed worthy of an interim report by the AIG/A.

At the briefing, engagement team members will present information to demonstrate that they developed the elements of the findings, have the necessary support and evidence to support the proposed recommendations, and have discussed the issue with the appropriate agency representatives and any others charged with governance.

No later than 5 calendar days after the briefing, the engagement team will provide the proposed draft interim report to the AIG/A and appropriate Deputy AIG/A for review and comment. Any comments will be provided back to the engagement team within 1-2 calendar days. Engagement teams will incorporate all agreed upon changes within 2 calendar days.

Based on this process, a draft interim report should be issued to the agency management and those charged with governance within 7-10 calendar days of briefing the AIG/A.

The work unit is responsible for ensuring that the draft interim report undergoes a referencing review, before it is submitted for Headquarters' review, in accordance with IG-7323.

The work unit will ensure that the draft interim report includes a statement instructing the agency to send a written Section 508-compliant agency management response within 10 days of the date of the interim report and seeking concurrence with the interim report's issues, recommendations, and monetary results, if applicable.

The work unit will ensure that interim reports issued at the national level are addressed to the Agency Administrator or to a higher level, if appropriate, through the Agency Liaison Officer. Interim reports shall be promptly issued through the Headquarters' division.

The Headquarters Director shall ensure that the Assistant or Under Secretary is provided a copy of interim reports issued to the Agency Administrators, as deemed appropriate.

The work unit will ensure that the agency's response to the draft interim report will be incorporated into the final interim report.

If management decision is reached through the agency management response, this will be reflected in the final interim report's OIG position section. Agency management responses that do not concur or propose inadequate corrective action plans shall be promptly evaluated and addressed, as appropriate, in the final interim report's OIG position section.

The work unit will follow the instructions in IG-7217, *Transmittal and Distribution of Audit Reports*, on how to administer the interim report process.

F. PROCEDURES FOR INTERIM REPORT MANAGEMENT DECISION PROCESS

Agency management response for each recommendation reported in a draft interim report is requested 10 days from the date of draft report issuance.

The work unit responsible for making the recommendation in the interim report will evaluate the agency management response to determine whether the response addresses the recommendation and OIG accepts the management decision. The AIG/A will sign all management decision correspondence associated with interim reports. Timeframes, responsibilities, and procedures for achieving management decision for interim report recommendations are outlined below:

1. Management Decision Accepted for One or More Recommendations. Within 3 days of receipt of the agency's reply to a draft interim report, OIG will take the following actions:
 - a. The work unit responsible for the audit will prepare a confirmation memorandum to the agency (with a copy to OCFO) conveying OIG's acceptance of the agency's management decision. The memorandum will inform the agency of:
 1. The recommendation(s) where management decision has been reached between OIG and the agency. A copy of the agency response, the memorandum, and the *Achievement of Management Decision Form* will be provided to the OCFO.
 2. Advice to follow internal agency procedures in forwarding final action correspondence to OCFO.

3. The need for final action on the management decision to be completed within 1 year of the date of the management decision to preclude being listed in the Department's Performance and Accountability Report.
- b. Work units will prepare the *Achievement of Management Decision Form* for all recommendations for which management decision has been newly achieved (see exhibit A of IG-7218) via the draft interim report. Where space permits, multiple recommendations and the associated management decisions/OIG position can be described on a single form. If the agency provides a single corrective action which would fulfill multiple recommendations, the recommendations should each be restated followed by the agency response and OIG's position, the estimated (or final) completion date, and if final action has not been taken, a description of the actions and/or documents necessary to achieve final action.
 - c. Depending upon the signatory level, the applicable Headquarters' division or the work unit will transmit the memorandum and the form to the auditee, OCFO, and as applicable, the Headquarters' division.
 - d. The date on the *Achievement of Management Decision Form* should correspond to the date the final interim report was issued. Therefore, the work unit should take care to ensure the management decision correspondence (confirmation memorandum and the *Achievement of Management Decision Form*) is issued after release of the final interim report when management decision has been accepted for at least one or all of the report's recommendations.
 - e. Regional/field offices will prepare documents for (b)(7)(E) and ensure the accuracy of information entered.
 - f. Regional/field offices will input all correspondence into (b)(7)(E)
2. Management Decision Not Accepted for Recommendations.

If agreement cannot be reached through correspondence or by telephone, meetings with agency personnel should be arranged. If at any time the regional/field office and program agency reach an impasse, or if the agency's reply is not received in a timely manner, the matter should be referred immediately to the next higher management official level, if appropriate.

Within 3 days of receipt of the agency's reply to a draft interim report, OIG will take the following actions:

- a. The work unit responsible for the audit will prepare a confirmation memorandum to the agency (with copy to OCFO) conveying a response or explanation of the reasons for disagreement, the actions needed to reach agreement or correct the

conditions, and recommending meetings with the auditee, as applicable. If needed, any additional information should be requested within a specified timeframe to be discussed with the AIG/A.

At this stage in the management decision process, interim reports parallel the audit report process for management decision and final action. Refer to IG-7218 for consideration of the management decision process at the 90, 120, 135, and 150 day milestones. Additionally, the provisions in IG-7218 concerning changes in management decision also apply to interim report recommendations.

G. OTHER REPORTING ASPECTS OF INTERIM REPORTS

The interim report reporting model does not include a Management Consensus-Building Outline, official draft, or equivalents. Specifically, an interim report is issued in draft, an agency response is received, and then the interim report is issued in final.

Interim report recommendations are tracked and administratively managed separately from the recommendations in the related audit report. Interim report recommendations are tracked separately from audit report recommendations both by OCFO and by OIG's (b)(7)(E)

For an engagement that resulted in the issuance of interim report(s), the engagement audit report will reference the issued interim report(s). Additionally, if interim reports were issued, the audit report will contain an exhibit to the report that will include the interim report(s) number, title, date of issuance, and a statement directing the reader to the OIG website for copies of the interim report(s).

Interim reports are stand-alone products. Therefore, final audit reports will not include the findings of an interim report or the related recommendations. However, a short narrative description of the interim report is permissible if it is deemed necessary to appropriately depict a related finding in the engagement audit report.

END

AUDIT

Single Audits of State and Local
Governments and Non-Profit Organizations

APPROVAL/TRANSMITTAL

This manual section has been revised to reflect organizational and title changes; specifically, the creation of the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Office of Inspector General (OIG) personnel shall follow the procedures in this directive, which incorporate and supplement Government Auditing Standards. Government Auditing Standards will prevail if this directive and Government Auditing Standards appear to disagree. Government Auditing Standards also prevail for instances where this directive is unclear or has not been updated to reflect a revision to Government Auditing Standards.

This supersedes IG-7510, dated May 23, 2006. Remove and destroy previous editions.

Signed by the IG 4-16-2014

PHYLLIS K. FONG
Inspector General

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A. BACKGROUND

All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, OMB Circular No. A-133 Annual Compliance Supplement, and the Government Auditing Standards. These audits are performed by independent State or local government auditors and independent public accountants. Recipients expending more than \$50 million a year in Federal awards shall have a cognizant Federal agency for audit. The designated cognizant agency shall be the Federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB makes a specific cognizant

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agency for audit assignment. Recipients not assigned a cognizant agency for audit shall be assigned an oversight Federal agency for audit. The designated oversight agency shall be the Federal awarding agency that provides the predominant amount of direct awards. Where there are no direct awards, it shall be the Federal awarding agency that provides the predominant amount of indirect awards.

Inspectors General from each Federal agency making Federal awards shall designate one person within the OIG as the National Single Audit Coordinator (NSAC) for that OIG. The NSAC is the principal contact point at the Federal cognizant audit agency for single audit matters. The NSAC should be a person in a position to coordinate single audit issues with management and staff in the agency, be responsive to communications from other Federal agencies about single audit matters, and be an individual to whom any single audit inquiry or matter can be directed. The NSAC may not necessarily have the authority to respond to all matters, but should be in a position to receive requests and inquiries, route them within the agency as appropriate, and coordinate a response. A committee of NSAC representatives meets on a regular basis to discuss relevant single audit issues.

OMB has designated the Bureau of the Census as the Federal Audit Clearinghouse (FAC) for single audit reports. The FAC serves as the central collection point and repository for single audit reporting packages of States, local governments, and non-profit organizations. These reports and related Data Collection Forms (SF-SAC) are prepared and submitted according to the Single Audit Act Amendments of 1996, 104 Pub. L. No. 156. The FAC processes and maintains the reporting packages and related SF-SAC.

The FAC now maintains electronic copies of single audit reports. If a Federal agency needs a copy of the report, that agency should first ask the auditee for a copy. If the agency is unable to get a copy from the auditee, the agency may request a copy from the NSAC. The NSAC has access to the report files maintained by the FAC. Federal agencies that have need of regular access to reports can obtain FAC access through the NSAC. The FAC also maintains a list of incomplete reporting packages that have been received but have not been processed. Anyone can access the FAC website to obtain copies of SF-SAC at <http://harvester.census.gov/sac/>.

The FAC answers inquiries concerning the report submission and data collection requirements of OMB Circular No. A-133. The toll-free telephone number for the FAC is (800) 253-0696. Inquiries concerning specific audit requirements will be referred to the cognizant or oversight agency for audit, the Federal awarding agency, or OMB, as appropriate.

The FAC will review the Schedule of Expenditures of Federal Awards for 2004, 2009, 2014, and every fifth year thereafter, to determine which Federal agency provided the predominant amount of direct funding and therefore is the cognizant agency. The FAC will then

notify the NSAC for that Federal agency via e-mail of the proposed assignment and ask them to confirm the determination. Once the cognizant agency is confirmed, the FAC will add the non-Federal entity to the cognizant agency list with an identification of the year added. A listing of current cognizant agency assignments is in the "Cog List Report" available in Specialized Reports (<http://harvester.census.gov/sac/dissemin/reports.html>).

Where the U.S. Department of Agriculture (USDA) has been designated as the cognizant or oversight agency for audit, OIG carries out the following responsibilities, pursuant to OMB Circular No. A-133:

1. Provide technical audit advice and liaison to auditees and auditors.
2. Consider auditee requests for extensions to the report submission due date. The cognizant or oversight agency for audit may grant extensions for good cause, unless otherwise directed by OMB. The NSAC should forward all requests for extensions to the Office of the Chief Financial Officer (OCFO). OCFO will coordinate with the funding agencies on whether to grant the extension.
3. Obtain or conduct quality control reviews (QCR) of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations.
4. Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor of irregularities or illegal acts, as required by Government Auditing Standards or laws and regulations.
5. Advise the auditor and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit shall notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. It is the CIGIE's policy that an auditor's non-compliance with the standards established by the Comptroller General or other appropriate professional standards may warrant a referral to the appropriate sanctioning or licensing authority. A referable action is when the audit report or underlying audit work has significant inadequacies which make the audit so pervasively deficient that users cannot rely on it.

6. Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits required by the Single Audit Act so that the additional audits or reviews build upon audits performed in accordance with the Act. Evaluate results from the audits, where applicable, when expressing an opinion on a Federal agency's financial statements and compliance with laws and regulations.
7. Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.

B. DEFINITIONS

Designated Cognizant Agency for Audit. The Federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB designates a specific cognizant agency for an audit assignment. (See 7 C.F.R. § 3052.400.)

Desk Review. A limited review of an audit conducted in accordance with the Single Audit Act utilizing the checklists promulgated by CIGIE. (See 7 C.F.R. § 3052.105 and OMB Circular A-133.)

Federal Audit Clearinghouse. An entity that serves as the central collection point and repository for single audit reporting packages of States, local governments, and non-profit organizations. (See OMB Circular A-133.)

National Single Audit Coordinator. The principal contact point at the Federal cognizant audit agency for single audit matters. This individual coordinates single audit issues with management and staff in the agency, is responsive to communications from other Federal agencies about single audit matters, and is the individual to whom any single audit inquiry or matter can be directed.

Quality Control Reviews. A review of the system of quality control applied to audits conducted in accordance with the Single Audit Act utilizing the checklists promulgated by CIGIE. (See OMB Circular A-133.)

Single Audit. The commonly referred-to audit of all non-Federal entities that expend \$500,000 or more of Federal awards in a year conducted in accordance with the Single Audit Act. (See 7 C.F.R. § 3052.105 and OMB Circular A-133.)

C. POLICY

In order to carry out OIG responsibilities under OMB Circular No. A-133 in an efficient and effective manner, Desk Reviews (DRs) and QCRs should be performed in accordance with the following criteria:

1. DRs should be performed for all single audits where OIG is cognizant. Based on risk factors and the results of the DR, the NSAC will determine if a QCR is necessary. All QCRs and DRs are to be performed and documented using the CIGIE checklists.
2. Where another Federal agency is assigned cognizance, OIG may assist in performing the QCR when substantial USDA funds are involved.
3. General oversight responsibility consists of providing technical assistance and advice upon request to an auditee that does not have a designated cognizant agency. OIG may accept additional oversight responsibility; however, the acceptance of additional responsibilities should be limited. The decision to provide additional assistance would normally be based on a program agency's request/concern or OIG's awareness of problems.
4. Results of DRs and QCRs are to be provided to the auditee, auditor, and other Federal agencies providing funds. Major inadequacies or continued substandard performance of independent public accountants should be referred to appropriate licensing and professional bodies. OIG will track instances of substandard performance and minor deficiencies in order to refer cases of continued questionable performance. When referrals are made, follow the instructions in IG-7610, *Referral of Independent Public Accountants to Regulatory Bodies and USDA Debarring Officials*.

END

AUDIT

Referral of Independent Public Accountants to
Regulatory Bodies and USDA Debarring Officials

APPROVAL/TRANSMITTAL

This manual section has been revised to remove references to the National Association of State Boards of Accountancy's (NASBA) *Complaint Referral Handbook*. The handbook is no longer used since States provide individual guidance regarding referrals.

OIG personnel shall follow the procedures in this directive, which incorporate and supplement Government Auditing Standards. Government Auditing Standards will prevail if this directive and Government Auditing Standards appear to disagree. Government Auditing Standards also prevail for instances where this directive is unclear or has not been updated to reflect a revision to Government Auditing Standards.

This supersedes IG-7610, dated March 19, 2007. Remove and destroy previous editions.

Signed by the IG 4-11-2014

PHYLLIS K. FONG
Inspector General

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A. BACKGROUND

The Inspector General Act of 1978 requires Federal Inspectors General to ensure that all work performed by non-Federal auditors complies with Generally Accepted Government Auditing Standards (GAGAS) for audits of governmental organizations, programs, activities, and functions. See 5 U.S.C. app. 3, §4(b)(1)(C). The GAGAS incorporate, by reference, the Generally Accepted Auditing Standards (GAAS) promulgated by the American Institute of Certified Public Accountants (AICPA). The Office of Inspector General (OIG) performs desk reviews of audit reports and quality control reviews of audit documentation, as necessary, to ensure compliance with the standards. As a result of these reviews, OIG can refer an independent public accountant (IPA) to the State licensing authority and provide a copy of the

April 2014

complaint to the Professional Ethics Division of the AICPA and the appropriate USDA agency debarring official.

The AICPA has promulgated a *Code of Professional Conduct* consisting of two sections—the “Principles” and the “Rules”— which govern the performance of professional services by members. The Council of the AICPA is authorized to designate bodies to promulgate technical standards under the rules, and the bylaws require members to adhere to those rules and standards.

B. DEFINITIONS

1. Major inadequacies. Significant, pervasive, or flagrant instances of substandard performance that make the report so questionable or unreliable that Federal assistance providers cannot rely upon it, or OIG cannot accept it. Such instances include, but are not limited to, the following:
 - a. Deficiencies that cannot be corrected, such as an auditor's lack of independence, conflict of interest, lack of a current license, or any complaint that, if confirmed, would lead to a suspension or revocation of license to practice.
 - b. Misrepresentations, including expressing positive opinions about obviously deficient conditions, distorting financial statements, or omitting significant information.
 - c. Failure to perform all work required by the engagement or representing required work as performed when, in fact, it was not performed.
 - d. Gross failure to comply with GAAS, GAGAS, contract requirements, or the applicable audit program, or failure/refusal to correct deficient work within a reasonable time (within 90 workdays), thus diminishing the report's reliability.
2. Minor deficiencies. Instances of substandard performance that are not so severe as to mislead a user of the financial statements and do not preclude release of the report and its acceptance by OIG. Nevertheless, OIG should attempt to have the auditor correct those deficiencies.

C. POLICY

The Office of Inspector General will refer an IPA to the applicable State licensing authority when the IPA's performance reflects major inadequacies or continued substandard work.

All referrals must be signed by the Assistant Inspector General for Audit. If the IPA is a Certified Public Accountant and a member of the AICPA, a transmittal letter and a copy of the referral package should also be sent to the AICPA's Professional Ethics Division. Simultaneously, the USDA program agency that was the largest provider of assistance should be notified of the results of the OIG review and furnished a copy of the referral package for review for debarment or suspension, as appropriate.

D. PROCEDURES

If deficiencies are found during the desk review of a report, the initiation of a quality control review of the work to identify other deficiencies should be considered. Whenever deficiencies in audit work are identified, the IPA should be advised, the deficiency discussed, and a confirmation letter sent to the IPA. The letter should:

1. Cite reasons for concluding that the work was deficient.
2. Explain the impact on Federal assistance programs.
3. Suggest a solution for resolving each deficiency.
4. Provide a contact point, a name, telephone number, and an address of the person familiar with the desk or quality control review in the event the IPA has questions or is unable to complete corrective action by the suggested date.

If the effort to obtain corrective action fails, notifications should be sent to the USDA program agencies and any other Federal agencies providing financial assistance addressed by the audit.

E. REFERRAL PACKAGE

1. The referral package consists of a cover letter to the State licensing authority stating that the referral is a complaint and including the following information:
 - a. Name, telephone number, and address of the IPA who performed or was responsible for the work.
 - b. A statement as to whether the IPA is a member of the AICPA or State Society.
 - c. Highlights of any audit standards that were violated or any audit requirements that were not met.

- d. A brief summary of actions taken to have the deficient work corrected, along with a description of any additional work performed.
 - e. A commitment to make OIG's audit documentation available, where appropriate, for the licensing authority's use and to make OIG personnel available at any hearings, at management's discretion.
 - f. Notice of any similar letters sent to other States or the AICPA.
 - g. A request that OIG be advised of the decision rendered.
 - h. A copy of the engagement letter or contract and the audit report.
 - i. A copy of correspondence sent to the IPA describing how the work does not comply with GAAS, GAGAS, the contract, or the applicable audit procedure.
 - j. A copy of correspondence received by OIG that contains the IPA's views or response, and if appropriate, a reply from OIG to the views submitted by the IPA.
 - k. Any other information required by the State licensing authority.
2. A copy of the cover letter shall be transmitted to the IPA. Copies of the referral packages are sent to:
- a. The appropriate program debarring official(s) within USDA.
 - b. The Professional Ethics Division of the AICPA.
 - c. The State licensing authority for the location of the entity audited if different than the one that licensed the IPA.

END

AUDIT

Non-audit Work

APPROVAL/TRANSMITTAL

This manual section establishes policies and procedures governing non-audit work (including non-audit services and inspections) performed by the Office of Inspector General's (OIG) Office of Audit. OIG personnel shall follow the policies and procedures in this directive, which incorporate and supplement *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation* (together, "the standards"). The standards will prevail if this directive and the standards appear to conflict. The standards also will prevail where this directive does not reflect a more recent revision to the standards.



SEP 20 2018

PHYLLIS K. FONG
Inspector General

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EXHIBIT

Exhibit A – Checklist to Document Staff Assigned to the Engagement Fulfill the
Competence Standard

A. BACKGROUND

In some instances, OIG's Office of Audit will perform work that is not an engagement conducted in accordance with *Government Auditing Standards*. This non-audit work includes non-audit services (described below) and inspections and evaluations conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Inspection and Evaluation*. The purpose of this directive is to provide guidance for the performance of non-audit work by OIG's Office of Audit. This guidance incorporates and supplements the standards and applicable OIG directives, including IG-7213, *Auditor Independence*. In addition, if the non-audit work is likely to involve sensitive, personal, proprietary, or classified information, staff should follow the policies and procedures detailed in IG-2595, *Protection of Sensitive and Personally Identifiable Information* and IG-1421, *Personal Privacy Information* to safeguard information.

1. Non-audit Services.

Professional services, other than audits, attestation engagements, inspections, evaluations, and investigations, are sometimes referred to as "non-audit services" or "consulting services." Non-audit services consist of tasks or services, consistent with auditors' skills and expertise. Entity management can request non-audit services that directly support entity operations, such as: financial statement and accounting records preparation; internal audit assistance; internal control evaluation; and information technology services.

In addition, audit organizations in government entities frequently provide services that differ from the traditional professional services that an accounting or consulting firm provides to or for an audited entity. These types of services are often provided in response to a statutory requirement, at the discretion of the authority of the audit organization, or to an engaging party (such as a legislative oversight body or an independent external organization) rather than a responsible party (such as entity management), and would generally not create a threat to independence. Examples of these types of services include the following:

- Providing information or data to a requesting party without auditor evaluation or verification of the information or data, for example when the Office of Audit provides final action information or statistics;
- Developing standards, methodologies, audit guides, audit programs, or criteria for use throughout the government or for use in certain specified situations, for example when OIG creates audit guides for Certified Public Accountants auditing Rural Housing properties;
- Contracting for audit services on behalf of an audited entity and overseeing the audit contract, as long as the overarching principles are not violated and the auditor under contract reports to the audit organization and not to management; and
- Periodic audit recommendation followup engagements and reports, such as the Office of Audit's Final Action Verifications.

Furthermore, routine activities performed by auditors that relate to the performance of an audit, such as providing advice and responding to questions as part of an audit, are not considered non-audit services. Additionally, reviews performed by OIG under the CIGIE *Quality Standards for Inspection and Evaluation* are not considered non-audit services.

For non-audit services, *Government Auditing Standards* only address independence concerns. Both *Government Auditing Standards* and the CIGIE *Quality Standards for Inspection and Evaluation* require organizational and individual independence in both fact and appearance when conducting audits and inspections, respectively. The Office of Audit must avoid situations that could lead reasonable and informed third parties to conclude that the OIG, as an organization, is not able to maintain independence.

When considering whether to provide non-audit services in any particular case, the Office of Audit must evaluate whether providing the particular non-audit service creates a threat to OIG's independence, in fact or appearance, either by itself or in aggregate with other non-audit services provided, with respect to any audit it performs. For example, the Office of Audit must avoid providing any non-audit services that involve the performance of management functions, the making of management decisions, or the performance of services that are significant or material to the subject matter of audits or that could result in auditing OIG's own work. This directive supplements IG-7213, *Auditor Independence*. All staff performing audit, inspection and evaluation, or non-audit work must comply with IG-7213, *Auditor Independence*.

2. Inspection and Evaluation.

The Inspector General Act of 1978, as amended, 5 U.S.C. app. 3, § 11(c) (2), provides that members of CIGIE shall "adhere to professional standards developed by the Council." In June 2010, CIGIE adopted the *Quality Standards for Inspections* as the professional standards for all inspection and evaluation work performed by member organizations. In 2012, CIGIE issued updated *Quality Standards for Inspection and Evaluation*, that adopted certain technical changes and mandated adherence to the *Quality Standards for Inspection and Evaluation* when conducting inspection and evaluation work. The CIGIE standards, incorporated and supplemented by this directive, govern inspection and evaluation work performed by OIG.

Reviews performed by the OIG under the CIGIE *Quality Standards for Inspection and Evaluation* are not considered non-audit services. As defined in the CIGIE *Quality Standards for Inspection and Evaluation*, inspections and evaluations are "systematic and independent assessments of the design, implementation, and/or results of an Agency's operations, programs, or policies." The term "inspection" includes "evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation" such as responses to specific

Congressional, Secretarial, or agency questions or requests for information which do not warrant performing an engagement in accordance with *Government Auditing Standards*. Inspections and evaluations provide information and, where appropriate, recommendations, to agency managers, policymakers, and others concerning improvements and administrative actions. Key aspects of inspections and evaluations include their flexibility to allow for timelier reporting of results.

B. DEFINITIONS

1. Cross-reference. A hyperlink or other executable relational link between two points in an engagement. Generally, it is a (b)(7)(E) hyperlink.
2. Cross-referencing. The act of linking a written product directly or indirectly to supporting documentation via a cross-reference.
3. Discussion Draft Report. The referenced draft report transmitted to the entity for formal discussion at the exit conference.
4. Documentation. The principal record of the work that the engagement team has performed in accordance with standards and the conclusions that the engagement team has reached. Documentation should contain a description of the work performed, findings, conclusions, and recommendations that the engagement team has reached. The quantity, type, and content of documentation are a matter of the engagement team's professional judgment. Documentation is an essential element of engagement quality. The process of preparing and reviewing documentation contributes to the quality of an engagement. Documentation serves to: (1) provide the principal support for the engagement product; (2) aid the engagement team in conducting and supervising the engagement; and (3) allow for the review of engagement quality.

Terms such as *working papers*, *work papers*, and *evidence* are synonymous with *documentation*.

5. Draft Report. The preliminary write-up of the results of an engagement, which provides the medium whereby the Office of Audit exercises quality control over the written product, communicates results, and obtains the entity's views prior to issuance of the final report. The draft reporting process can consist of the following phases: working draft; discussion draft; and official draft.
6. Engagement. A work project in the Office of Audit that generally results in a written product. These engagements are typically classified as an audit, review, attestation, inspection, evaluation, or non-audit service.

7. Engagement team. The Office of Audit team that conducts the engagement.
8. Engagement Work Program. An approved, detailed list of steps, procedures, instructions, methodologies, or guidance for the conduct of an engagement. The detailed list is an electronic product created in the system of record for engagement documentation (b)(7)(E) [redacted] The engagement work program will provide the basis for work performed.
9. Entity. Entity will typically be a U.S. Department of Agriculture (USDA) agency or office, but it can also be any other USDA organization, such as a mission area or the Office of the Secretary.
10. Evaluation. For purposes of this directive, *evaluation* is the same as *inspection*.
11. Final Report. The final released engagement product, including the entity's written response.
12. Inspection. Evaluations, inquiries, and similar types of reviews that do not constitute an audit, a criminal investigation, or a non-audit service.
13. Interim Report. A stand-alone report of issue(s) that require the immediate attention of entity management prior to the completion of the engagement. Based on the entity's response to recommendations made in an interim report, management decision may be achieved on the recommendations within an interim report before the related final report is issued.
14. Managers' Consensus Building Outline (MCBO). An outline of the engagement results created per the template. The purpose of the MCBO is to facilitate stakeholder comprehension and agreement before engagement product creation.
15. Non-audit Services. Professional services, other than audits, attestation engagements, inspections, evaluations, and investigations. Non-audit services consist of tasks or services, consistent with auditors' skills and expertise. Entity management can request non-audit services to directly support entity operations, such as: financial statement and accounting records preparation; internal audit assistance; internal control evaluation; and information technology services.

In addition, non-audit services are often provided in response to a statutory requirement, to an engaging party (such as a legislative oversight body or an independent external organization) rather than a responsible party (entity management), or at the discretion of the Assistant Inspector General for Audit (AIG/A). These types of non-audit services would generally not create a threat to independence.

Routine activities performed by auditors that relate to the performance of an audit, such as providing advice and responding to questions as part of an audit, are not considered non-audit services. Additionally, reviews performed by OIG under the CIGIE *Quality Standards for Inspection and Evaluation* are not considered non-audit services.

16. Non-audit work. Work performed by the Office of Audit that is not an engagement conducted in accordance with *Government Auditing Standards*. Non-audit work includes non-audit services and inspections.
17. Official Draft Report. The final draft report transmitted to the entity subsequent to the exit conference, reflecting revisions made, if any, and a request for an official written response to the findings and recommendations.
18. Professional judgment. The act of exercising reasonable care and professional skepticism. Professional judgment represents the application of the collective knowledge, skills, and experiences of all personnel involved with an engagement, as well as the professional judgment of the individual. In addition to personnel directly involved in the engagement, professional judgment may involve collaboration with other stakeholders, external specialists, and management in the Office of Audit.
19. Professional skepticism. An attitude that includes a questioning mind and a critical assessment of evidence.
20. Reasonable care. The condition of acting diligently in accordance with applicable professional standards and ethical principles.
21. Standards. *Government Auditing Standards* and the CIGIE *Quality Standards for Inspection and Evaluation*.
22. (b)(7)(E) The documentation suite employed by the Office of Audit as the system of record for all engagements.
23. Unassociated Referencing Review. A process in which auditors or inspectors (not associated with the engagement under review) review the product and trace, reconcile, verify, and validate the cross-references in the product back to supporting documentation.
24. Working Draft Report. An initial, complete draft prepared by the auditors and submitted to entity management for review.

C. POLICY

Non-audit services will be approved, planned, performed, and reported in accordance with this directive. Entity requested non-audit services should be accepted only on an exception basis, for compelling reasons, and upon approval by the AIG/A, based on a determination that providing the non-audit service will not pose a threat to independence. Non-audit services that are not requested by entity management must be approved by the AIG/A based on a determination that providing the non-audit service will not pose a threat to independence.

Inspections will be planned, performed, and reported in accordance with CIGIE *Quality Standards for Inspection and Evaluation*, this directive, and other applicable OIG directives as specifically cited herein. When this directive specifically cites an existing directive, the terms *audit(s)* and *auditor* within the cited directive should be read to include *inspection(s)* and *staff performing the inspection*.

The policy and guidance in this directive do not alter any requirements or standards governing the conduct of audits.

Non-audit work is not subject to the *Expectations for Audit Assignment Management*.¹ However, engagement teams should develop appropriate timeframes to guide the completion of the non-audit work.

D. OTHER AUTHORITIES

This directive also incorporates by reference other applicable policies and procedures located in the directives listed below:

1. Departmental Regulation 1720-001, *Audit Follow-up and Management Decision*
2. IG-1421, *Personal Privacy Information*
3. IG-2595, *Protection of Sensitive and Personally Identifiable Information*
4. IG-7211, *Audit Planning*
5. IG-7213, *Auditor Independence*
6. IG-7215, *Audit Documentation*
7. IG-7216, *Preparation of Audit Reports for Release on Internet*
8. IG-7217, *Transmittal and Distribution of Audit Reports*
9. IG-7218, *Management Decision Process*
10. IG-7314, *Engagement Planning, Programs, and Supervision*
11. IG-7316, *Performance Audits – Reporting*
12. IG-7323, *System of Quality Control*
13. IG-7324, *Auditor Professional Judgment and Competence*
14. IG-7401, *Interim Reports*

¹ This current version of this document is located on the AIG/A's (b)(7)(E) site (b)(7)(E)

E. PROCEDURES FOR NON-AUDIT SERVICES

1. Assessment of Entity Requested Non-audit Services.

The Office of Audit must carefully evaluate requests by entity management to perform non-audit services to determine whether providing such a service would create a threat to independence, in fact or appearance, with respect to any audit performed by the Office of Audit. The Office of Audit should only accept entity requested non-audit services on an exception basis, for compelling reasons, and upon approval by the AIG/A.

- a. Entities must submit their requests for non-audit services in writing to the AIG/A, detailing the non-audit service being requested, along with any desired timeframes, and the type of work product expected, if any. Requests should come from entity management through their audit liaison and should designate an entity individual who possesses suitable skills, knowledge, or experience, and understands the services to be performed enough to oversee the services.² The entity individual is not required to possess the expertise to perform or re-perform the services.
- b. The AIG/A, or his or her designee, will perform an initial assessment of the non-audit service request to determine if there is a compelling reason to consider performing the requested non-audit service and if the non-audit service appears to be an expressly prohibited activity. Expressly prohibited activities include, but are not limited to, significant participation in the reviewed entity's management responsibilities. Management responsibilities involve leading and directing an entity, including: making decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources and include activities such as setting policies; designing, implementing or maintaining internal controls or monitoring procedures; or providing significant services such as designing or implementing hardware/software.

Assumption of management responsibilities for an audited entity creates a management participation threat so significant that no safeguards could reduce them to an acceptable level.

² In assessing whether the individual designated to oversee the non-audit service possesses suitable skills, knowledge, or experience to oversee, supervise, or direct the non-audit service, the auditor should consider the following factors that pertain to the designated individual: (1) understanding of the nature of the service; (2) knowledge of the audited entity's business; (3) knowledge of the audited entity's industry; (4) general business knowledge; (5) education, licenses, accreditations, and membership in professional organizations; and (6) position at the audited entity. Some factors may be given more weight than others, depending on the nature of the non-audit service. For example, although the level of education attained by the individual can be one indicator of his or her skills or knowledge, or both, it is not necessarily true that the more formal education that the individual possesses, the more able he or she would be to oversee the non-audit service. AICPA 2011 *Yellow Book Independence – Non-Audit Services Documentation Practice Aid*.

- c. If the AIG/A does not believe there is a compelling reason to perform the non-audit service or if the request is an expressly prohibited service, the AIG/A will decline the request to perform the non-audit service. If, after the initial assessment, the AIG/A believes that the Office of Audit should consider performing the requested non-audit service, the AIG/A will request that a Work Unit complete a written assessment to determine whether a requested non-audit service will impair the independence of the Office of Audit or its staff.³
- d. The written assessment should be prepared in accordance with the *Government Auditing Standards*' conceptual framework for independence and must explain how performing the non-audit service will or will not impair independence, either by itself or in aggregate with other non-audit services provided, and should include an assessment of the following:
 - Any ongoing and planned audits and non-audit work that is or could potentially be related to the requested non-audit service;
 - Whether the non-audit service is expressly prohibited by standards, as described above; and
 - If a threat to independence is identified, the appropriate safeguards that will be implemented.

The American Institute of Certified Public Accountants (AICPA) has developed a practice aid to assist in meeting the *Government Auditing Standards* requirements for identifying and evaluating threats to independence when considering whether to provide a non-audit service.⁴

- e. The written assessment must be approved by the Work Unit Assistant Director and Director, the applicable Deputy Assistant Inspector General for Audit (DAIG/A), and the AIG/A. The AIG/A may only approve the non-audit service if it poses no threats to independence, or if the threats have been eliminated or reduced to an acceptable level using the approved safeguards agreed upon with Office of Audit management.
- f. If the Office of Audit accepts the request for the non-audit service:
 - (1) The Work Unit must evaluate entity management's ability to effectively oversee the non-audit services to be performed. This evaluation of management's skills, knowledge, or experience must be documented and retained in the engagement file. Representations by management alone are not sufficient to perform or document this evaluation. If management is not able to oversee

³ The overarching principles of independence are that auditors may not: perform management functions or make management decisions; audit their own work; or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of ongoing, planned, or potential audits.

⁴ AICPA, 2011 *Yellow Book Independence – Non-audit Services Documentation Practice Aid*.

the non-audit service provided effectively, then auditor independence is impaired and the *Government Auditing Standards* independence requirements cannot be met.

- (2) There must be a written understanding between the Office of Audit and the entity on the objectives, scope of services to be performed, responsibilities, limitations, product or deliverables, and requested due date of the non-audit service. This understanding must clearly document assurances that client management:
 - (a) assumes all management responsibilities;
 - (b) oversees the services being performed by designating an individual, preferably within senior management, who possesses suitable skills, knowledge, or experience;
 - (c) evaluates the adequacy and results of the services performed; and
 - (d) accepts responsibility for the results of the services.
 1. The written understanding of work will be approved and signed by the AIG/A and the entity's senior management.
 2. All requests, evaluations, assessments, approvals, and other documentation should be retained in the engagement file.
- g. If a third party, such as a legislative oversight body, requests that OIG perform non-audit services that the Office of Audit's management determines would threaten independence, OIG should notify the requestor and the audited entity that these non-audit services would impair auditor independence on subsequent audit or attestation engagements.
- h. If due to statutory requirements OIG cannot implement safeguards to reduce the resulting threat to an acceptable level, decline to perform, or terminate the non-audit service that is incompatible with audit responsibilities, OIG should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the *Government Auditing Standards* compliance statement accordingly.
- i. Conditions (g) and (h) above should occur rarely and must be discussed with the responsible DAIG/A and the AIG/A.

2. Non-audit Services Not Requested by Entities. Non-audit services are often provided in response to a statutory requirement, to an engaging party (such as a legislative oversight body or an independent external organization) rather than a responsible party (entity management), or at the discretion of the AIG/A. These types of non-audit services would generally not create a threat to independence. However, an independence assessment and approval must be completed in accordance with E.1.b. and E.1.e. In addition, the AIG/A may elect to categorically approve certain types of non-audit services after a categorical threat assessment has identified no independence threats. The engagement team must retain the threat assessment and approval in the engagement file.
3. Activities Not Requiring Prior Approval. IG-7213, *Auditor Independence*, Section C.5, lists certain routine activities that do not create a significant threat to OIG's independence to conduct audits, investigations, or inspections and, therefore, do not need prior AIG/A approval. These activities include providing routine advice to entity management to assist them in activities such as establishing internal controls or implementing audit recommendations, answering technical questions, and providing training. Additionally, OIG auditors can provide tools and methodologies, such as best practices guides, benchmarking studies, and internal control assessment methodologies that entity management can use. By their very nature, these are routine activities that would not affect OIG's independence. If Office of Audit staff involved in these activities have any questions or concerns with respect to the professional service they are providing, they should discuss the situation with their Audit Director and, if necessary, the responsible DAIG/A and AIG/A, to determine whether a formal approval for non-audit services should be submitted.
4. Non-audit Services and Potential Impact on Audit Work. Audit staff must be cognizant when a non-audit service is planned, ongoing, or previously performed for an entity subject to a planned or ongoing audit. The auditor should evaluate the impact the non-audit service(s) has on independence in relation to that audit using the *Conceptual Framework for Independence* detailed in *Government Auditing Standards* and IG-7213.

Auditors who previously provided non-audit services should also evaluate the impact of their participation in any subsequent audit using the *Government Auditing Standards'* conceptual framework and IG-7213. If the auditor concludes that participating in the audit would result in an independence impairment, he/she should notify his/her immediate supervisor and recuse himself/herself from the audit. However, he or she may convey the knowledge gained of the requesting entity and its operations to the audit engagement team.

5. Tracking and Monitoring Non-audit Services. Non-audit services should be coded as such in (b)(7)(E) and (b)(7)(E) unless otherwise directed by additional guidance. This information should be readily available for internal quality assessment reviews or external peer reviews and should be retained in accordance with the provisions in IG-2186, *Records Creation, Retention, and Disposition* governing audit and evaluation case files.

The AIG/A, at least annually, will send an email reminder to all Office of Audit staff on the importance of ensuring that the provision of non-audit services does not result in an impairment to independence. The email will also remind audit staff that when a non-audit service has been performed for an entity that is a prospective subject of an audit, the audit should evaluate the impact that the non-audit service(s) have on the independence of OIG and Office of Audit staff in relation to that audit.

6. Non-audit Service Performance. Once the AIG/A has approved the non-audit service pursuant to Section E.1, above, the Office of Audit will perform the requested non-audit services. For entity requested non-audit services, Office of Audit staff will perform the non-audit service pursuant to procedures to which the requester and the Office of Audit mutually agreed. Although *Government Auditing Standards* do not provide performance standards for conducting non-audit services, they encourage the use of other professional standards, as appropriate, that would sustain quality.⁵ Rule 201 of the AICPA Code of Professional Conduct defines the general standards of Professional Conduct as professional competence, due professional care, planning and supervision, and sufficient relevant data. The team should follow these standards while performing any non-audit service, as described below. The documentation supporting the non-audit service should reflect these standards.
- a. Professional competence and due professional care are described in IG-7324, *Auditor Professional Judgment and Competence*. All Office of Audit staff working on the non-audit service should document their competence by completing IG-7324, *Auditor Professional Judgment and Competence, Exhibit A, Checklist to Document Staff Assigned to the Audit Fulfill the Competence Standard*.
 - b. Non-audit services should be appropriately planned. The engagement team should develop a written work plan which must be approved by the AIG/A. For entity requested non-audit services, the engagement work plan is based off the written understanding of work described in E.1.f. (2) and the procedures will be designed to achieve the agreed upon non-audit service. Any deviations from the approved work plan require justification and authorization by the AIG/A and may require an addendum to the understanding of work, if applicable.

⁵ One source of standards is the AICPA, *Statements on Standards for Consulting Services No. 1*. The general standards in this statement derive from Rule 201 of the AICPA Code of Professional Conduct.

- c. The work program should clearly state the background, objective(s), scope, methodology, timeframes, and procedures to achieve the non-audit service and specify that the non-audit service will adhere to the general standards of independence, professional judgment, competence, and quality control and assurance.⁶ The procedures will be designed to achieve the objectives of the non-audit service, including obtaining sufficient relevant data.
- d. (b)(7)(E) is the official system of records for all non-audit service engagements and will be used to document, review, share, and retain work during and after, as applicable, the conduct of the non-audit service. The (b)(7)(E) serves as a link between the system and the engagement processes, practices, and documentation requirements described in the directives.⁷ The (b)(7)(E) file should be organized in accordance with IG-7215, *Audit Documentation, Section D, Part 6*. Auditors should comply with IG-7215, *Section D, Parts 8 and 9*. The non-audit service should have adequate supervision. IG-7314, *Engagement Planning, Programs, and Supervision, Section G*, details the key facets of supervision.
- e. To assess the adequacy of the information collected in the course of performing the non-audit service, auditors should follow IG-7215, Section D, Parts 3 and 4. The procedures and mechanisms used to gather information should ensure that the information is sufficiently reliable and valid for use in the non-audit service. Auditors should use professional judgment to determine whether the information is sufficient, reliable, and valid.⁸

⁶ The objective states what the engagement intends to accomplish and is based on the purpose of the engagement. It is critical that the objective(s) are distinct and clear. The scope is the boundary of the engagement and is directly tied to the objective. Methodology describes the nature and extent of procedures for gathering and analyzing supporting documentation to address the engagement objectives. Methodology generally relates to the techniques used to gather the supporting documentation and the types of evidence relied upon.

⁷ The (b)(7)(E) is periodically updated as needed and is accessible on the (b)(7)(E).

⁸ The following presumptions, as described in *Government Auditing Standards*, are useful in judging the reliability and competency of evidence: (1) evidence obtained from an independent source may be more reliable than that secured from an organization being inspected; (2) evidence developed under an effective system of internal controls generally is more reliable than that obtained where such controls are lacking or unsatisfactory; (3) evidence obtained through direct physical examination, observation, or computation may be more reliable than evidence obtained through less direct means; (4) original documents generally are more reliable than copies; and (5) testimonial evidence obtained from an individual who is not biased or who has complete knowledge about the area usually is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

Auditors also need to ensure the validity and reliability of data obtained through computer-based systems, if they are significant to the non-audit service.⁹ To maintain quality over the non-audit service supporting documentation, the auditors should adhere to the procedures in IG-7323, *System of Quality Control*, Section E.

7. Non-audit Service Reporting. When performing non-audit services, auditors must clearly document any cross-referencing and unassociated referencing reviews. Auditors should follow the procedures for review and signoff, cross-referencing, and sampling approval contained in IG-7323, Section E, when performing non-audit services. In addition, auditors should cross-reference the non-audit service report to supporting documentation and should conduct an unassociated referencing review as described in IG-7323, Section F, Parts 2 and 3. The unassociated referencing review should be documented using IG-7323, *Exhibits A through D* and (b)(7)(E). An external reviewer must confirm all statistical sampling results and any related projections, as described in IG-7323, Section F, Part 1.

- a. When Office of Audit issues a report on a non-audit service, the report must clearly indicate that it is not an “audit” or “inspection” and that the work was not performed in accordance with *Government Auditing Standards*. The report should describe the objectives, scope of work, procedures, and standards applied.¹⁰ In particular, the report must contain a special marking on its front cover, stating the following:

This document contains information provided as a non-audit service to [identify organization]. [If the document contains data or information, indicate from where the data/information was obtained and that the data or information was not verified or analyzed, that is, that no audit procedures were performed on it.] Therefore, any work performed was not done in accordance with generally accepted government auditing standards. However, before we performed the non-audit service, we determined that it would not impair our independence to perform audits, inspections, attestation engagements, or any other future or ongoing reviews of the subject.

- b. When a draft report is prepared, the engagement team should submit it to the applicable DAIG/A for review and signature via the applicable (b)(7)(E) processing workflow.¹¹

⁹ Staff performing inspections should use Government Accountability Office’s (GAO) guide, *Assessing the Reliability of Computer-Processed Data* (GAO-09-232G), Feb. 2, 2009.

¹⁰ General standards such as competency, independence, professional skepticism, and quality control are all inherent to how OIG performs its work.

¹¹ The AIG/A memorandum dated August 9, 2012, established the use of (b)(7)(E) for report production. Workflows are detailed in the Publication Procedure Process document on (b)(7)(E).

- c. Non-audit service reports are expected to follow the same internal review process, timeframes, and transmittal process outlined in IG-7316, *Performance Audits–Reporting, Section F*. However, non-audit services are not required to use the final report template. Instead, the engagement team and writer-editor must work in conjunction to prepare the final report package and ensure it has the proper formatting and branding.
- d. Distribution of non-audit service reports shall be in accordance with IG-7217, *Transmittal and Distribution of Audit Reports*. Office of Audit reports are generally subject to release to the public and posted on OIG’s website. Therefore, Office of Audit reports shall be subject to an internal Freedom of Information Act review before release to the public in accordance with IG-7216, *Preparation of Audit Reports for Release on Internet*. IG-7216 also describes the general information that should not be disclosed in audit reports.

F. PROCEDURES FOR INSPECTIONS

The CIGIE *Quality Standards for Inspection and Evaluation* outline 14 standards governing the conduct of inspections and evaluations, which are listed below. Many of these standards are incorporated into OIG’s existing Inspector General manual chapters, as specifically cited below, and will be referred to herein as the applicable policies and procedures to fulfill the *Quality Standards for Inspection and Evaluation* requirement. When an existing Inspector General manual references “audit”, “audit standards”, or “*Government Auditing Standards*”, that standard shall also apply to “inspections” and “*Quality Standards for Inspection and Evaluation*”, respectively. Office of Audit staff will follow this directive section for all inspection engagements. In addition, inspection engagements should be coded as such in

(b)(7)(E) and (b)(7)(E)

The CIGIE *Quality Standards for Inspection and Evaluation* do not define the terms *must* and *should*. For internally established policies and procedures, *must* indicates a requirement and *should* means something that is expected in most cases, but not required if not applicable or appropriate to the situation. Inspections are inherently flexible. Due to this flexibility, not performing a stated procedure does not necessarily result in a departure from the professional standard it implements. However, variations from the procedures should be documented and, if necessary, a modified compliance statement should be used in the inspection report.

The 14 standards governing the conduct of inspections and evaluations, set forth in the CIGIE *Quality Standards for Inspection and Evaluation*, are as follows and apply to any inspection work performed by OIG:

1. Competency.

Standard: *The staff assigned to perform inspection work should collectively possess adequate professional competency for the tasks required.*

Staff performing inspections should document their competency by completing IG-7710, *Non-audit Work, Exhibit A, Checklist to Document Staff Assigned to the Engagement Fulfill the Competence Standard*.

2. Independence.

Standard: In all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.

Staff performing inspections shall adhere to IG-7213, *Auditor Independence*. Staff performing inspections should be especially cognizant that the inspection does not create an impairment to independence, in fact or in appearance, with current or future audit work done in accordance with *Government Auditing Standards*.

3. Professional Judgment.

Standard: Due professional judgment should be used in planning and performing inspections and in reporting the results.

Staff performing inspections shall use professional judgment while: selecting the type of work to perform; identifying the applicable standards that apply to the work; selecting the scope of the work and the inspection methodology; and determining the type and amount of evidence to be gathered, testing, and procedures. Professional judgment should also be applied when actually performing the tests and procedures and when evaluating and reporting the results of the work. Professional judgment includes the application of the collective knowledge, skills, and experiences of all personnel involved with an inspection as well as the judgment of the individual staff performing inspections.

Professional judgment requires staff performing inspections to exercise reasonable care and professional skepticism (for example, questioning and critically assessing evidence) throughout the engagement. Staff shall diligently gather evidence and objectively evaluate its sufficiency, competency, and relevancy. Staff shall also seek persuasive evidence and should not presume honesty or dishonesty on the part of those who are providing evidence. Staff performing inspections may rely on the work of others after satisfying themselves regarding the quality of the work by appropriate means.

Due professional judgment requires staff to:

- Follow professional, Department/Agency, and organizational standards and conduct work in accordance with all applicable laws, rules, and regulations.

- Conduct inspections in a timely, diligent, and complete manner, using appropriate methods and techniques.
- Gather and report evidence in a fair, unbiased and independent manner.
- Report valid findings, conclusions, and recommendations supported by adequate documentation.
- Conform to high standards of conduct, including the “Standards of Ethical Conduct for Employees of the Executive Branch” and Federal conflict-of-interest laws.
- Coordinate inspection results with appropriate officials.

Professional judgment allows staff to obtain reasonable assurance that material misstatements or significant inaccuracies in data will likely be detected if they exist. However, absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Therefore, this standard does not imply unlimited responsibility or infallibility on the part of either the individual or the organization.

4. Quality Control.

Standard: Each OIG organization that conducts inspections should have appropriate internal quality controls for that work.

Staff performing inspections must document the cross-referencing and unassociated referencing reviews. The inspection should follow the procedures for review and signoff, cross-referencing, and sampling approval as described in IG-7323, *System of Quality Control*, Section E. In addition, the inspection report should be cross-referenced to supporting documentation and undergo an unassociated referencing review as described in IG-7323, Section F, Parts 2 and 3. The unassociated referencing review should be documented using IG-7323, Exhibits A through D and (b)(7)(E) All statistical sampling results and any related projections require confirmation by an external reviewer as described in IG-7323, Section F, Part 1.

The inspection should have adequate supervision. IG-7314, *Engagement Planning, Programs, and Supervision*, Section G, details the key facets of supervision. The inspection (b)(7)(E) file is subject to the Periodic Monitoring as described in IG-7323, Section, G, Part 3. Inspections will be included in the portfolio of Office of Audit engagements reviewed under the Quality Assurance Reviews as described in IG-7323, Section H.

The Office of Audit participates in CIGIE’s external peer review program. OIGs that conduct inspections in accordance with the *Quality Standards for Inspection and Evaluation* should undergo an external peer review every three years. The 3-year time period begins on the date OIG issues its first final inspection report. CIGIE offers an optional modified peer review for

organizations that have not conducted inspections during the reviewed timeframe. To participate in a modified peer review, the Inspector General must request that the modified peer review be performed.¹²

The Office of Audit will publically post its most recent peer review report concerning inspection and evaluation activities on the OIG website.

5. Planning.

Standard: *Inspections are to be adequately planned.*

Inspections must be incorporated into OIG's annual planning process and the corresponding Annual Plan as described in IG-7211, *Audit Planning*. Incorporating the inspection planning process into the annual planning process will ensure that audit and inspection work is coordinated and avoids duplication. When planning which inspections to perform, staff should consider IG-7211, Section B, Parts 1, 2, and 5. Additionally, staff should consider the relevancy of the topic, stakeholder needs, and the significance/impact of potential outcomes. These points should be of continuing consideration throughout the inspection engagement.

For each inspection, an engagement work program must be prepared, approved by the AIG/A, and any deviations require justification and authorization. The work program should clearly state the background, objective(s), scope, methodology, timeframes, and procedures to achieve the inspection objective(s) and specify that the inspection will follow CIGIE *Quality Standards for Inspection and Evaluation*. The procedures should be designed to obtain sufficient and appropriate evidence to provide a basis for the opinions, judgments, and conclusions regarding the inspection objective.

The following procedures are required in all inspection work plans:

- Coordination with the Office of Investigation (OI) to request that OI provide information or cautions regarding any on-going investigation(s) that might be impacted by the work scheduled during the engagement. Also, review any previous year's hotline complaints relevant to the engagement objective(s). Based on the information obtained from OI: (1) assess whether the engagement's objective(s), scope, or methodology need to be revised to avoid interference with investigations or legal proceedings; and (2) determine whether additional procedures are needed related to any identified complaints.

¹² CIGIE, *Guide for Conducting Peer Reviews of Inspection and Evaluation Organizations of Federal Offices of Inspector General*, January 2017.

- Identification of criteria applicable to the evaluation of the program or activity. Examples of possible criteria include: laws; regulations; policies; procedures; technically developed standards or norms; expert opinions; prior periods' performance; performance of similar entities; performance in the private sector; and best practices of leading organizations.
- Review of prior audits, inspections, or reviews performed by entity management, OIG, GAO, or any other organizations to determine the applicability to the inspection and following up on findings and recommendations that directly relate to the current inspection.
- Obtaining an understanding of the program or activity to be inspected by reviewing existing data, discussions with program and other appropriate officials, literature research, and a review of pertinent websites.
- An overall assessment that data collected was sufficiently reliable and valid to address the inspection objective(s) and that it was reviewed for accuracy.
- An overall assessment that the evidence obtained was sufficient, competent, and relevant to the inspection.

When an inspection addresses a topic that is cross-cutting or affects other governmental organizations, the engagement team may consider conducting a joint or coordinated review with other organizations' OIGs.

6. Data Collection and Analysis.

Standard: The collection of information and data will be focused on the organization, program, activity, or function being inspected, consistent with the inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions.

Inspection data should be of such scope and selected in such ways as to address pertinent questions about the objectives of the inspection and be responsive to the information needs and interests of the specified audience. Data collected should be reviewed for accuracy and reliability and, if necessary, the techniques used to collect, process, and report the data should be reviewed and revised to ensure the accuracy and reliability of inspection results. To be able to assess the adequacy of the information collected, staff performing inspections should follow IG-7215, *Audit Documentation*, Section D, Part 4. The procedures and mechanisms used to gather information should ensure that the information is sufficiently reliable and valid for use in meeting the inspection objectives. Staff

performing inspections should use professional judgment to determine whether the information is sufficiently reliable and valid.¹³ Staff performing inspections also need to ensure the validity and reliability of data obtained through computer-based systems if they are significant to the inspection findings.¹⁴ The engagement file should contain a summary procedure determining if the data collected was sufficiently reliable and valid for use in meeting the inspection objectives and that the data collected was reviewed for accuracy.

IG-7216, *Preparation of Audit Reports for Release on Internet*, describes the general information that should not be disclosed in Office of Audit reports.

Analysis and work papers should be clear, concise, and contain the information detailed in IG-7215, Section D, Part 3. Findings often have been regarded as containing the elements of: criteria; condition; effect; and, when problems are found, cause. However, the elements needed for an inspection finding depend entirely on the objectives of an inspection. Thus, a finding or set of findings is complete to the extent that the inspection objectives are satisfied and the report clearly relates those objectives to the applicable elements of a finding.

The following safeguards are in place to protect the inspection findings and reports against distortion by the personal feelings and biases of any party to the inspection: (1) staff performing inspections should be independent in fact and appearance; and (2) all inspection engagements have quality control procedures in place that include adequate supervision and an unassociated referencing review.

7. Evidence.

Standard: Evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations.

The various types of inspection evidence and associated policies and procedures for each type are detailed in IG-7215, Section D, Part 4. The evidence obtained should be sufficient, competent, and relevant to the inspection objectives and be able to lead a reasonable person to sustain the findings, conclusions, and

¹³ The following presumptions are useful in judging the reliability and competency of evidence: (1) evidence obtained from an independent source may be more reliable than that secured from an organization being inspected; (2) evidence developed under an effective system of internal controls generally is more reliable than that obtained where such controls are lacking or unsatisfactory; (3) evidence obtained through direct physical examination, observation, or computation may be more reliable than evidence obtained through less direct means; (4) original documents generally are more reliable than copies; and (5) testimonial evidence obtained from an individual who is not biased or who has complete knowledge about the area usually is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area. *Quality Standards for Inspection and Evaluation*, January 2012.

¹⁴ Staff performing inspections should use GAO's guide, *Assessing the Reliability of Computer-Processed Data* (GAO-09-232G), February 2, 2009.

recommendations of the inspection. The engagement file should contain a summary procedure assessing the sufficiency, competency, and relevance of the overall evidence obtained. To determine the sufficiency of evidence, staff performing inspections should ensure that enough evidence exists to persuade a knowledgeable person of the validity of the findings. To determine competency, staff performing inspections should ensure that evidence obtained was reliable and the best obtainable evidence using reasonable collection and evaluation methods.¹⁵ To determine relevance, staff performing inspections should ensure that the evidence used to prove or disprove an issue has a logical relationship with, and importance to, the issue being addressed.

8. Records Maintenance.

Standard: All relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time.

(b)(7)(E) is the official system of records for all inspection engagements and will be used to document, review, share, and retain work during and after the conduct of the inspection engagement. Sufficient information should be contained in the (b)(7)(E) file for supervisors to manage and evaluate staff and to provide a record of work performed and the nature and scope of inspections. The (b)(7)(E) serves as a link between the system and the engagement processes, practices, and documentation requirements described in the directives.¹⁶ The (b)(7)(E) file should be organized in accordance with IG-7215, Section D, Part 6. Staff performing inspections should comply with IG-7215, Section D, Parts 8 and 9.

9. Timeliness.

Standard: Inspections should strive to deliver significant information to appropriate management officials and other customers in a timely manner.

When planning an inspection, the engagement team should establish timeframes for the conduct of the inspection. Timeframes may change due to unforeseen circumstances such as expanding the scope of the inspection or adding additional objectives.¹⁷ During an inspection, it may be appropriate to provide interim reporting of significant matters to the appropriate officials in accordance with IG-7401, *Interim Reports*.¹⁸ Such reporting is not a substitute for a final

¹⁵ Data reliability is also addressed under the Data Collection and Analysis section of this directive.

¹⁶ (b)(7)(E) is periodically updated as needed and is accessible on the (b)(7)(E)

(b)(7)(E)

¹⁷ Senior Management must approve changes to the inspection scope or objective.

¹⁸ As detailed in the Reporting Section, the format and content of inspection reports are not as prescriptive as audit reports. This flexibility also applies to interim inspection reports.

report, but because it serves to alert the appropriate officials to matters needing immediate attention, corrective action may be initiated based on an interim report.

10. Fraud, Illegal Acts, Abuse.

Standard: In conducting inspection work, inspectors should be alert to possible fraud, other illegal acts, and abuse and should appropriately follow up on any indicators of such activity and promptly present associated information to their supervisors for review and possible referral to the appropriate investigative office.

The engagement team should be aware of vulnerabilities to fraud and abuse associated with the area under review in order to be able to identify possible or actual illegal acts or abuse that have occurred. The engagement team should be alert to indicators of fraud, other illegal acts, or abuse. The engagement team is not expected to provide reasonable assurance of detecting fraud, illegal acts, or abuse. If possible illegal behavior is identified, staff performing inspections should present this information to their supervisor for review and possible referral to the appropriate investigative office. It is not necessary to design additional procedures, unless fraud, illegal acts, or abuse are part of the objective of the inspection. When pursuing indications of possible illegal acts or abuse, staff performing inspections should exercise professional judgment to ensure they do not interfere with potential investigations and/or legal proceedings.

11. Reporting.

Standard: Inspection reporting shall present factual data accurately, fairly, and objectively and present findings, conclusions, and recommendations in a persuasive manner.

Various means may be used to report on the results of inspection work, for example, written reports, oral presentations, videos, or slide presentations. Reporting should be timely, complete, accurate, objective, convincing, clear, and concise. Inspection reports are less prescriptive than audit reports and thus provide more flexibility. Inspection reporting normally should describe the objective(s), scope, and methodology of the inspection. The methodology should state that the inspection was conducted in accordance with *Quality Standards for Inspection and Evaluation*.¹⁹ A modified standard of conduct compliance statement and related reportable language requires the approval of the AIG/A. There should be no reference to *Government Auditing Standards* in the inspection

¹⁹ The unmodified standard of conduct statement is: *We conducted this inspection in accordance with the Quality Standards for Inspection and Evaluation. These standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our review.* For engagements where this standard of conduct was not met, a modified standard of conduct statement shall be included as appropriate.

report. Inspection reports should provide the reader with the context in which the subject matter being inspected should be viewed, such as the impact or significance of the program/activity being reviewed, to help ensure the focus is not too narrowly drawn and to give clearer understanding of the impact of any report recommendations.

Inspection reports are frequently structured in terms of findings, conclusions, and recommendations.²⁰ However, an inspection report does not have to have findings. The overall presentation of an inspection report depends on the objectives of the inspection. If the inspection report has findings, the findings do not have to contain all traditional aspects of a finding. The elements needed for a finding depend entirely on the objectives of the inspection. Thus, a finding or set of findings is complete to the extent that the inspection objectives are satisfied and the report clearly relates those objectives to the applicable elements of a finding. Findings should be supported by sufficient, competent, and relevant evidence. Any conclusions should be logical inferences about the inspected program or activity based on the inspection findings. Typically, each finding requiring corrective action should be addressed by one or more recommendations directed to the management official(s) who have the authority to act on them. Recommendations normally should not be prescriptive in nature; rather, they should be crafted in a manner that lays out what needs to be corrected or achieved. When appropriate, staff performing inspections should solicit advance review and comments from responsible officials regarding the content of the report and should include the comments or a summary thereof in the report.

For findings that require immediate attention by management, an interim report, per IG-7401, should be considered.

As a matter of policy, all inspection engagements shall generally have a writer-editor assigned to the engagement. The drafting of the inspection report begins with the preparation of the MCBO, as detailed in IG-7316, *Performance Audits–Reporting*, Section D.²¹

Inspections will prepare a discussion draft report, official draft report, and final report as detailed in IG-7316, Section F, Parts 2 and 3 and Section G. As various means may be used to report the results of inspection work, inspections are not required to adhere to the form and content guidelines maintained on the USDA OIG Writing Resources website and are not required to use the final report template. Instead, the team and writer-editor must work in conjunction to prepare the final report package and ensure it has the proper formatting and branding.

²⁰ IG-7316, *Performance Audits – Reporting*, Section H through Section Q describe various parts that can be included in the inspection report. Inspection report presentation is at the discretion of the team and management as long as the CIGIE inspection reporting standard is met.

²¹ Prior to the MCBO, staff only need to complete the procedures in IG-7215, *Audit Documentation* and IG-7314, *Engagement Planning, Programs, and Supervision* that are applicable to the inspection process. Due to the flexibility afforded inspection engagements, inspections may not be subject to AIG/A's *Expectations for Audit Assignment Management Memorandum*.

When drafting the report, the team should be aware of the general information that should not be disclosed in Office of Audit reports as described in IG-7216. In addition, the inspection report should be cross-referenced to supporting documentation and undergo an unassociated referencing review as described in IG-7323, *System of Quality Control*, Section F, Parts 2 and 3. The unassociated referencing review should be documented using IG-7323, Exhibits A through D and (b)(7)(E) All statistical sampling results and any related projections require confirmation by an external reviewer as described in IG-7323, Section F, Part 1. All written reports are prepared, distributed, and issued in accordance with IG-7216 and IG-7217.

If an inspection is terminated prior to completion, it should follow the process described in IG-7316, Section R.²²

12. Followup.

Standard: Appropriate followup will be performed to ensure that any inspection recommendations made to Department/Agency officials are adequately considered and appropriately addressed.

The inspection recommendation followup process mirrors the existing followup process within OIG as detailed in IG-7218, *Management Decision* and the Department as detailed in Departmental Regulation 1720-001, *Audit Followup and Management Decision*.

As detailed under subparagraph 5, Planning, OIG should perform, as appropriate, followup work to verify whether agreed-on corrective actions were fully and properly implemented and follow up on findings and recommendations that directly relate to the current inspection.

13. Performance Measurement.

Standard: Mechanisms should be in place to measure the effectiveness of inspection work.

Inspections must be included in the performance measurements reported in the Annual Plan and the Semiannual Report to Congress.

14. Working Relationships and Communications.

Standard: Each inspection organization should seek to facilitate positive working relationships and effective communication with those entities being inspected and other interested parties.

²² The referenced close out memo should be prepared for all engagements which have been formally initiated via an engagement letter and entrance conference, but which are to be terminated prior to completion. The close out memo should briefly summarize the work performed and explain the reasons for terminating the inspection.

Communications should follow IG-7314, *Engagement Planning, Programs, and Supervision*, Section D, Part 4(d). In addition, communications should be properly documented in the inspection (b)(7)(E) file.

END