



**UNITED STATES
NUCLEAR REGULATORY COMMISSION**
WASHINGTON, D.C. 20555-0001

**OFFICE OF THE
INSPECTOR GENERAL**

System Review Report

May 2, 2014

Mr. Michael A. Raponi
Inspector General
U.S. Government Printing Office
732 North Capitol Street, NW
Washington, DC 20401

We have reviewed the system of quality control for the audit organization of the Office of the Inspector General (OIG), U.S. Government Printing Office (GPO), in effect for the year ended September 30, 2013.¹ A system of quality control encompasses GPO OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The GPO OIG is responsible for designing a system of quality control and complying with it to provide the GPO OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the GPO OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we contacted GPO OIG personnel and obtained an understanding of the nature of the GPO OIG audit organization, and the design of the GPO OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the GPO OIG's system of quality control. The engagements selected represented a reasonable cross-section of the GPO OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with GPO OIG's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

¹We also examined two audit reports issued in Fiscal Year 2014. Those audits were issued on November 13, 2013, and December 5, 2013, respectively.

In performing our review, we obtained an understanding of the system of quality control for the GPO OIG's audit organization. In addition, we tested compliance with the GPO OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the GPO OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Enclosure 1 to this report identifies the offices of the GPO OIG that we visited and the engagements that we reviewed.

Views of Responsible Officials

Your office did not respond to our request for comments on the draft report. On March 12, 2014, we provided a draft report for GPO OIG review and requested comments by April 11, 2014. Your office subsequently requested an extension to May 9, 2014. We granted an extension until April 25, 2014. To date, we have not received a reply nor been provided information as to whether a response will be forthcoming.

We noted the following deficiencies during our review:

1. Inadequate Supervisory Review and/or Documentation. This is a repeat finding (Management Letter Comment) from the previous Peer Review Report issued on March 25, 2011. All three performance audits we reviewed (13-14, 14-01, and 14-03) did not contain evidence of supervisory review for a substantial number of workpapers. Additionally, many workpapers for report 14-01 were indicated as being reviewed after the GPO OIG issued the report.

GAS 6.53 requires that: Audit supervisors or those designated to supervise auditors must properly supervise audit staff. GAS 6.83c states that: Auditors should document supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.

GPO OIG's Policies and Procedures Handbook dated February 18, 2013, Chapter 5, *Field Work* states that: *All workpapers supporting the report findings and recommendations need to be signed off before the report is issued. The audit cannot be finalized until all programs, summaries, procedure steps, attached workpapers, and exceptions are signed-off, and all coaching notes are closed.*

Recommendation

The GPO OIG should consistently comply with GAS 6.53 and 6.83c and its own procedures by documenting supervisory review of the audit workpapers. Implementation should be closely monitored and reported in the annual quality assurance reviews.

2. Inadequate Audit Planning. Two of the three performance audits we reviewed (13-14 and 14-03) did not contain evidence of adequate audit planning.

Specifically, these two audits lacked audit plans or programs to ensure the audit met objectives.

GAS 6.06 requires that: *Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.* GAS 6.51 requires that: *Auditors must prepare a written audit plan for each audit.*

GPO OIG's Policies and Procedures Handbook dated February 18, 2013, Chapter 4, *Audit Planning* states: *Auditors must prepare a written audit plan for each audit. A written audit plan assists management and auditors to determine whether: the proposed audit objectives are likely to result in a useful report; the audit plan adequately addresses relevant risks; the proposed audit scope and methodology are adequate to address the audit objectives; available evidence is likely to be sufficient and appropriate for purposes of the audit; and there are sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources available to perform the audit and to meet expected time frames for completing the work.*

Recommendation

The GPO OIG should consistently comply with GAS 6.06, 6.51 and its own procedures by ensuring that each audit is adequately planned and having a written audit plan to guide the audit and meet objectives.

3. Improper Use of Unmodified GAGAS Statement. All three performance audits we reviewed (13-14, 14-01, and 14-03) used the unmodified GAGAS compliance statement even though the audits did not fully comply with GAGAS. These audit reports neither acknowledged the lack of documentation for supervisory review or audit planning nor provided justification for any departures. Supervisory review and proper planning are fundamental aspects of any successful audit.

GAS 2.24 states: *Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS audits, as appropriate.*

a. Unmodified GAGAS compliance statement: Stating that the auditor performed the audit in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the auditors' report when they have (1) followed unconditional and applicable presumptively mandatory GAGAS requirements, or (2) have followed unconditional requirements, and documented justification for any departures from applicable presumptively mandatory requirements and have achieved the objectives of those requirements through other means.

b. Modified GAGAS compliance statement: Stating either that (1) the auditor performed the audit in accordance with GAGAS, except for specific applicable requirements that were not followed, or (2) 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 also include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected, or could have affected, the audit and the assurance provided.

GPO OIG's Policies and Procedures Handbook dated February 18, 2013, Chapter 6, *Audit Reporting* states: *When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report that indicates which standards were not followed or language that the auditor did not follow GAGAS.*

Recommendation

The GPO OIG should consistently comply with GAS 2.24 and its own procedures by ensuring that each audit report uses the appropriate compliance statement as necessary.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of GPO OIG in effect for the year ended September 30, 2013, has been suitably designed and complied with to provide the GPO OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. GPO OIG has received a peer review rating of *pass with deficiencies*. As is customary, we have issued a letter dated May 2, 2014, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to the GPO OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether GPO OIG had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion and accordingly, we do not express an opinion, on GPO OIG's monitoring of work performed by IPAs.

We appreciate the cooperation extended by you and your staff during the review.



Hubert T. Bell
Inspector General

Enclosure

SCOPE AND METHODOLOGY

We tested compliance with the GPO OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 1 of 7 audit reports issued during the period October 1, 2012, through September 30, 2013, and semiannual reporting periods corresponding to that timeframe. As stated in the footnote below, we reviewed two audit reports issued in November 2013.² We also reviewed the internal quality control reviews performed by the GPO OIG.

In addition, we reviewed the GPO OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period October 1, 2012, through September 30, 2013. During the period, GPO OIG contracted for the audit of its agency's Fiscal Year 2012 financial statements. GPO OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

We performed this review at GPO OIG offices in Washington, DC.

Reviewed Engagements Performed by the GPO OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
13-14	08/07/2013	Financial Accounting: Volatility of the Federal Employees' Compensation Act Actuarial Liability Estimate
14-01	11/13/2013	GPO Paint Branch Safeguarding Paint and Supplies Inventory
14-03	12/05/2013	GPO Strengthened Management Oversight of the Congressional Billing Process But Additional Steps Needed

² GPO's OIG issued a revised Policies and Procedures Handbook in 2013. Section 1.9 states "The 2013 revision of the Office of Audits and Inspections Policies and Procedures Handbook is effective for performance audits, financial audits, and attestation engagements beginning on or after February 18, 2013." To provide for the most efficient and effective review, NRC OIG selected only those audits that were initiated on or after February 18, 2013. Only one audit from the period October 1, 2012 to September 20, 2013, met that criteria. As a result, NRC OIG, with GPO OIG's concurrence, selected two additional audits from FY 2014.

Reviewed Monitoring Files of GPO OIG for Contracted Engagements

Report No.
13-09

Report Date
02/28/2013

Report Title
U.S. Government Printing Office
FY 2012 Independent Auditor's Report