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Office of Inspector General
Office of Audit Services
Deputy Inspector General for Audit Services

AUDIT MANUAL

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OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
AUDIT MANUAL

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ACRONYMS

ACAP   Audit Career Advisory Panel
AD   Assistant Division Director
AIC   Auditor-in-charge
AICPA   American Institute of Certified Public Accountants
AIG   Assistant Inspector General
AIGI   Assistant Inspector General for Investigations
AIGPA   Assistant Inspector General for Performance Audits
AIGRM   Assistant Inspector General for Resource Management
CAATs   Computer-assisted audit techniques
CFO   Chief Financial Officer
CHRIS   Corporate Human Resources Information System
CIP   Career Intern Program
CIGIE   Council of the Inspectors General on Integrity and Efficiency
CPE   Continuing Professional Education
DAPA   Director for Audit Planning and Administration
DARTS   Departmental Audit Reporting & Tracking System
DCAA   Defense Contract Audit Agency
DD   Division Director
DIGAS   Deputy Inspector General for Audit Services
EIGPT   Energy Inspector General Project Tracking system
FTR   Federal Travel Regulation
GAGAS   Generally Accepted Government Auditing Standards
GC   General Council
GAO   Government Accountability Office
GMRA   Government Management Reform Act of 1994
GPRA   Government Performance and Results Act of 1993
IAASB   International Auditing and Assurance Standards Board
IDP   Individual Development Plan
IG   Inspector General
IG Act Inspector General Act of 1978
OAPA   Office of Audit Planning and Administration
OAS   Office of Audit Services
OCFO   Office of the Chief Financial Officer
OIG   Office of Inspector General
OMB   Office of Management and Budget
ORM   Office of Resource Management
PCAOB   Public Company Accounting Oversight Board
QA   Quality Assurance
SAS   Statements on Auditing Standards
SCIC   Statement of Costs Incurred and Claimed
SES   Senior Executive Service
TAG   Technology Audit Group
TD   Technical Director
TIMS   Training Information Management System

TL   Team Leader

CHAPTER 1

INTRODUCTION TO THE AUDIT MANUAL

A.   *PURPOSE OF THE AUDIT MANUAL*

This Manual consolidates the policies, procedures, standards, technical guidance, and other techniques to be followed by the Deputy Inspector General for Audit Services (DIGAS) and staff in planning, conducting, and reporting Department of Energy (Department) audit work on behalf of the Office of Inspector General (OIG). In addition to this Manual, the Office of Audit Services (OAS) has a Report Style Manual covering audit report preparation, a TeamMate Protocol covering audit documentation using TeamMate software, and an Administrative Policies and Procedures Manual covering administrative issues. These manuals are available through the OIG's website.

B.   *APPLICABILITY*

All auditors in the OAS and auditors under contract to the DIGAS are required to follow the policies, procedures, and other requirements contained in this Manual for all audit work.

C.   *RELATIONSHIP OF MANUAL TO EXTERNAL STANDARDS*

The audit standards, policies, and procedures to be followed in executing the OAS mission were compiled from a variety of sources. This Manual is intended to be consistent with all applicable external standards and to ensure that performance and financial statement audits, attestation engagements, and all other audits and reviews conducted by or on behalf of the OAS are professional, objective, reliable, and fair.

    1.   <u>Government Auditing Standards</u>. The United States Government Accountability Office's (GAO) publication, *Government Auditing Standards*, July 2007 Revision, issued by the Comptroller General of the United States, contains standards for audits and attestation engagements for government organizations, programs, activities, functions, and funds received by contractors, grantees, and other nongovernmental organizations. These standards, informally called the "Yellow Book," are referred to as "generally accepted government auditing standards" (GAGAS) and shall apply to all OAS audit work and attestation engagements.

    2.   <u>American Institute of Certified Public Accountants</u>. The American Institute of Certified Public Accountants (AICPA) has established professional standards that apply to financial statement audits and attestation engagements for entities not covered by the Sarbanes-Oxley Act of 2002. For financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. For attestation engagements, GAGAS incorporate the AICPA general standard on criteria, and the field work and reporting standards and the related Statements on Auditing Standards for Attestation Engagements (SSAE) unless specifically excluded or modified by GAGAS. GAGAS describe ethical principles and establish independence and other general standards, and

additional field work and reporting standards beyond those provided by the AICPA for performing financial audits and attestation engagements.

3.   Council of the Inspectors General on Integrity and Efficiency. The Council of the Inspectors General on Integrity and Efficiency's (Council) promulgated standards, *Quality Standards for Federal Offices of Inspector General*, revised October 2003, apply to governmental audit activities and are consistent with GAGAS. The Council of the Inspectors General on Integrity and Efficiency has also developed standards and detailed guidance for conducting external quality control reviews of OIG audit operations.

4.   Office of Management and Budget Bulletins and Circulars. From time to time, the Office of Management and Budget (OMB) issues various bulletins and circulars related to audits conducted in accordance with GAGAS, or that otherwise affect how audits of financial statements, programs, and activities are to be conducted. The guidance is available through the OMB website.

5.   The Inspector General Act of 1978. The Inspector General Act of 1978, as amended, requires that audit work conducted by federal Inspector Generals, as well as audit work conducted by nonfederal auditors on their behalf, comply with GAGAS.

6.   Public Company Accounting Oversight Board. The Public Company Accounting Oversight Board (PCAOB) has established professional standards that apply to financial audits and attestation engagements for issuers. Auditors may use GAGAS in conjunction with the PCAOB standards.

7.   International Auditing and Assurance Standards Board. The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and attestation engagements. Auditors may use GAGAS in conjunction with the IAASB standards and the related statements on International Statements on Auditing.

While every OIG OAS auditor, team leader, or director is expected to follow all applicable guidance issued by the sources listed above, it is the ultimate responsibility of the OIG assigned team leader to ensure that any applicable Departmental, GAO, AICPA, Council, OMB, IG Act, PCAOB, and IIASB requirements are met for each audit or engagement.

D.   *STRUCTURE OF THE AUDIT MANUAL*

This Manual is divided into six major sections, as follows:

1.   Part I -- Introduction. Part I contains Chapters 1 and 2 and provides a general introduction to the Manual and the OIG's organization and functions.

2.   Part II -- General Audit Policies and Procedures. Part II contains Chapters 3 to 9 and provides information on general audit policies, general fieldwork policies, planning, audit evidence and documentation, advanced audit techniques, general reporting policies, assuring a quality report, and audit resolution and follow-up.

3.   Part III -- Performance Auditing. Part III contains Chapters 10 and 11 and provides information on conducting performance audits and issuing and distributing performance audit reports. A sampling of performance audit report formats is included in the OAS Report Style Manual.

4. <u>Part IV -- Financial Statement Auditing</u>. Part IV consists of Chapter 12 that discusses financial statement audits.

5. <u>Part V -- Contract Audits</u>. Part V consists of Chapter 13 that provides guidance for contract auditing and contract audit reports.

6. <u>Part VI -- Auditing Department Major Contractors</u>. Part VI contains Chapters 14 and 15 and provides guidelines for assessing the internal audit function and the Statements of Costs Incurred and Claimed (SCIC) for the Department's major contractors.

E.   *<u>UPDATES TO THE MANUAL</u>*

This Manual is intended to be a basic reference document for all OAS guidance and instruction. To ensure the Manual's usefulness, it should be kept up to date to reflect changes in audit standards, the OAS organization, and the audit environment.

1. <u>Suggestions</u>. Suggestions for revisions to the Manual are welcomed and should be brought to the attention of the Office of Audit Planning and Administration (OAPA). OAPA will be responsible for reviewing suggestions and updating the Manual.

2. <u>Changes</u>. Changes to the Manual will be made as required. All future changes will be posted on the OIG website All OAS staff will be notified via e-mail when changes have been made to the Manual.

F.   *<u>MANUAL TERMINOLOGY</u>*

1. <u>Use of Acronyms</u>. All acronyms used in this Manual are identified in the List of Acronyms which appears after the Table of Contents. Acronyms will also be identified the first time they are used in the Manual or if necessary for clarity.

2. <u>Audits</u>. As described in Chapter 2, the OAS performs performance audits, financial statement audits, other related financial audits, and attestation engagements. Since, in most cases, these types of assignments follow the same OAS policies and procedures, these assignments will be referred to generically as "audits" throughout this Manual, except in cases where the policies and procedures differ due to the type of assignment.

CHAPTER 2

AUDITING IN THE DEPARTMENT OF ENERGY

A.   ***SCOPE OF CHAPTER***

This chapter provides an overview of the authority and responsibilities of the Inspector General (IG) and the organization and structure of the OIG and the OAS.

B.   ***AUTHORITY AND RESPONSIBILITIES OF THE INSPECTOR GENERAL***

The OIG was established by Statue and is responsible for auditing Department programs and operations. The IG's responsibility for auditing does not supplant the authority of Department officials to perform programmatic reviews of individual programs and enforce regulatory functions. The IG's specific authority and responsibilities include:

   1.   Statutory Authority. The Department Organization Act, Public Law 95-91, as amended (42 U.S. Code 7138), established an OIG in the Department. Public Law 100-504 transferred the authority of the OIG to the Inspector General Act of 1978 (IG Act), as amended (Title 5, U.S. Code, App. 3). The IG Act gives the IG the authority to appoint an individual with responsibility for supervising audit activities relating to Department programs and operations. In response to this provision of the IG Act, and in accordance with applicable laws and regulations, the IG established the Deputy Inspector General for Audit Services (DIGAS) position within the OIG.

   2.   Statutory and Non-statutory Responsibilities. In addition to the responsibilities established in the OIG's fundamental charter, many other requirements arise from statute, regulation, Departmental policy, or OMB policy. A few of these requirements are discussed below.

       a.   Audit of the Department's Consolidated Financial Statements. The Government Management Reform Act of 1994 (GMRA) requires IGs to audit and report to OMB on the Department's consolidated financial statements by a designated due date. In conjunction with the financial statement audit, the OAS is also required to conduct evaluations of the Department's financial management system in accordance with the Federal Financial Management Improvement Act. These and other related requirements are discussed in detail in Chapter 12.

       b.   Federal Managers' Financial Integrity Act. The Federal Manager's Financial Integrity Act of 1982 requires IGs to annually review assurance letters prepared by all Department elements.

       c.   Semiannual Reports to Congress. The IG Act requires the IG to prepare semiannual reports summarizing OIG activities during the 6-month periods ending March 31 and September 30. The semiannual reports are furnished to the Secretary of Energy (the Secretary) for transmittal to the appropriate Congressional committees or subcommittees no later than 30 days after the Secretary's receipt of the report. The IG is also required to report immediately to

the Secretary when becoming aware of particularly serious or flagrant problems, abuses, or deficiencies relating to Department programs and operations. The semiannual reports:

- Describe significant problems, abuses, and deficiencies relating to administration of programs and operations identified during the reporting period;

- Describe the OIG's recommendations for corrective action with respect to the identified significant problems, abuses, or deficiencies;

- Identify each significant recommendation described in previous semiannual reports for which corrective action has not been completed;

- Summarize matters referred to prosecuting authorities and the resulting prosecutions and convictions; and,

- Summarize each OIG investigation, inspection, and audit report.

d.   Council of the Inspectors General on Integrity and Efficiency. The Council of the Inspectors General on Integrity and Efficiency (CIGIE) was statutorily established as an independent entity within the executive branch by the "The Inspector General Reform Act of 2008," P.L. 110-409 to:

- address integrity, economy, and effectiveness issues that transcend individual Government agencies; and

- increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General.

Prior to the establishment of the CIGIE, the Federal Inspectors General operated under the auspices of two councils, The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) from the time they were established by Executive Order 12805, May 11, 1992 until the signing of P.L. 110-409.

e.   Requests from Other IGs. From time to time, requests for audit assistance are received from the IGs of other departments and agencies. These requests impose additional non-statutory reporting responsibilities.

C.   *OIG ORGANIZATION AND FUNCTIONS*

The IG is the principal advisor to the Secretary for promoting economy and efficiency in Department programs, operations, and administration and for preventing and detecting fraud, abuse, and irregularities. Department programs and operations include the Federal Energy Regulatory Commission (FERC), the National Nuclear Security Administration (NNSA), and the Federal Power Administrations.

1.   Organization Structure. The OIG consists of four major functions:

- The Office of the Deputy IG for Audit Services (DIGAS);

- The Office of the Assistant IG for Inspections and Special Inquiries;

- The Office of the Assistant IG for Investigations; and

- The Office of the Assistant IG for Resource Management.

2. <u>OIG Functions</u>. For the Department's programs, operations, and administration and for the Department's contractors, grantees, and other funded activities, the OIG:

- Supervises, coordinates, and provides policy direction for audit, investigative, and inspection activities related to promoting economy and efficiency and preventing and detecting fraud or abuse;

- Recommends policies and conducts, supervises, or coordinates other activities carried out or financed by the Department for the purpose of promoting economy and efficiency or preventing and detecting fraud and abuse;

- Recommends policies for, and conducts, supervises, or coordinates relationships between the Department and other Federal agencies, State and local government agencies, and other nongovernmental entities with respect to (1) all matters relating to the promotion of economy and efficiency or the prevention and detection of fraud or abuse and (2) the identification and prosecution of participants in such fraud or abuse.

- Recommends action to correct problems, abuses, and deficiencies noted in the course of audits, inspections, and investigations.

- Monitors and reports on the progress of implementing actions to correct problems, abuses, and deficiencies.

- Keeps the Secretary and the Congress fully and currently informed of potential and actual fraud and serious abuses, problems, and deficiencies.

D. *OFFICE OF AUDIT SERVICES STRUCTURE AND FUNCTIONS*

The OAS provides policy direction, supervises, conducts, and coordinates all audit activities for all Department programs and operations, including audits done under contract and those performed by the OAS audit staff. The following chart shows the organization structure of the OAS, which includes a Headquarters element and two operational components:

OFFICE OF AUDIT SERVICES

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┌─────────────────────────┐
│ Deputy Inspector General│              ┌──────────────────────────────┐
│ for Audit Services      │──────────────│ Director, Audit Planning and │
│ (DIGAS)                 │              │ Administration (DAPA)        │
└─────────────────────────┘              └──────────────────────────────┘
            │
┌─────────────────────────┐
│ Assistant Inspector     │
│ General for             │
│ Performance Audits      │
│ (AIGPA)                 │
└─────────────────────────┘
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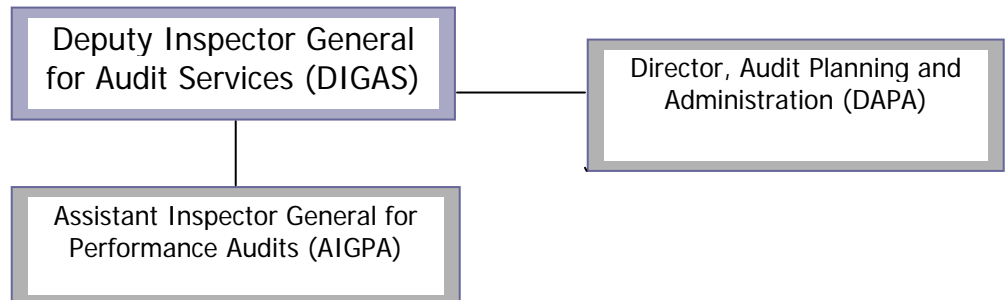
1.   Office of Audit Services. The OAS is headed by the DIGAS who reports directly to the IG. The DIGAS manages, coordinates, and has overall responsibility for policy and direction of all audits relating to Department programs and operations. The DIGAS provides liaison with Federal, State, and local government auditors, as well as private audit organizations. The DIGAS also monitors implementation of audit plans and ensures that audits are performed in accordance with GAGAS and OAS policies and procedures. The DAPA and AIGPA report directly to the DIGAS and provide the resources and specialized knowledge and experience to assist the OAS in complying with the mandates of the IG Act and applicable amendments. Their responsibilities include supervising, coordinating, and providing policy direction for auditing and reviewing the Department's programs and operations, including the operations of its contractors.

    a.   Headquarters Element. The DAPA is the focal point for audit policy and program guidance with two areas of responsibilities. One area is audit planning, which includes policy development, workload planning, resource justification and application, strategic planning, performance measurement and reporting, and annual assessments. The second area is assistance provided to the DIGAS in the management of audit resources including budget support, justification, and preparation, training and professional development, management of the information systems database, office administration, personnel management, contract administration, travel management and support, and quality assurance.

    b.   Operational Components. The two operational components are headed by the AIGPA and by the DIGAS, on an interim basis, who are the focal points for all audits and attestation engagements. Within their respective areas of responsibility, both are responsible for supervising and reviewing all audits of Department programs and operations including contractors and grantees. On an interim basis, the DIGAS is responsible for all financial statement and other related financial audits and all performance audits and attestation engagements in the areas of information technology, corporate, the environment, and science at the Department. The AIGPA is responsible for all performance audits and

attestation engagements in the areas of national security, energy, and the environment.

2.   Types of Audits and Attestation Engagements. The audits and reviews performed by or at the direction of the OAS can be classified as performance, financial statement, other related financial, or attestations engagements.

      a.   Performance Audits. Performance audits provide assurance or conclusions based on evaluating sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the audit results to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.   Chapters 10 and 11 provide specific guidance for conducting and reporting on performance audits. Performance audit objectives include:

- Program effectiveness to determine the extent to which a program is achieving its goals, objectives, and intended results;

- Economy and efficiency to determine whether resources were used economically and efficiently to achieve program results or to analyze the relative cost-effectiveness of a program or activity;

- Internal or management controls to determine whether management had designed controls to provide reasonable assurance of achieving effective and efficient operations, reliable performance reporting, or compliance with applicable laws and regulations;

- Compliance to determine whether the purpose of a program, the manner in which it is conducted, and its outcome comply with applicable criteria such as laws, regulations, contract and grant provisions, and other requirements; and,

- Prospective analysis to provide analysis or conclusions about information that is based on assumptions about potential future events along with possible anticipatory actions that the audited entity may take.

      b.   Financial Statement and Other Related Financial Audits. Financial audits provide an independent assessment of and reasonable assurance about whether the Department's reported financial condition, results, and use of resources are presented fairly in accordance with recognized accounting criteria. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes. Chapter 12 provides guidance for conducting and reporting on financial audits. Financial audits performed under GAGAS include financial statement audits and other related financial audits.

The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaim an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity

with generally accepted accounting principles (GAAP)[1] or with a comprehensive basis of accounting other than GAAP.

Other types of related financial audits under GAGAS provide for different levels of assurance and involve various scopes of work in conjunction with or as a by-product of a financial statement audit. For example, related financial audits can include providing special reports, such as for specified elements, accounts, or items of a financial statement, reviewing interim financial information, or auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance.

c.   Attestation Engagements. Attestation engagements can cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion. There are three types of attestation engagements - an examination, a review, and agreed-upon procedures. An examination provides the highest level of assurance and consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter of the engagement is based on or in conformity with stated criteria in all material respects or whether an assertion is fairly stated in all material respects based on stated criteria. A review provides less assurance and consists of sufficient testing to express a conclusion about whether any information came to the auditor's attention on the basis of the work performed that indicates the subject matter is not based on or in conformity with the stated criteria or the assertion is not fairly stated in all material respects based on the criteria. Agreed-upon procedures consist of performing specifically identified procedures for a subject matter, and assurance is limited to the results of those procedures.

 Examples of the subject matter of attestation engagements are:

- Internal control over financial reporting;
- Internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- Compliance with requirements of specified laws, regulations, policies, contracts, or grants;
- Accuracy and reliability of reported performance measures;
- Allowability and reasonableness of contract or grant costs incurred or proposed; and,
- Quantity, condition, or valuation of inventory or assets.

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[1] Three authoritative bodies for generally accepted accounting principles are the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the sponsors of the Federal Accounting Standards Advisory Board (FASAB). GASB establishes accounting principles and financial reporting standards for state and local government entities. FASB establishes accounting principles and financial reporting standards for non-government entities. The sponsors of FASAB - the Secretary of the Treasury, the Director of the OMB, and the Comptroller General - jointly establish accounting principles and financial reporting standards for the Federal government.

CHAPTER 3

GENERAL AUDIT POLICIES

A.   *SCOPE OF CHAPTER*

This chapter prescribes policies and procedures relating to staff competence, auditor independence, use of professional judgment, and the OAS's system of quality controls. The chapter also addresses other general matters including relying on the work of others, audit follow-up, scope impairments, informing OIG management about potential sensitive events and issues, and dealing with inquiries from the media, Congress, and other external organizations.

B.   *STAFF COMPETENCE AND TRAINING*

According to GAGAS, the staff assigned to conduct an audit must collectively possess adequate professional competence for the required tasks. Staff members conducting audits should have (1) knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work; (2) general knowledge of the environment in which the audited entity operates and the subject matter under review; (3) ability to communicate clearly and effectively, both orally and in writing; and, (4) skills appropriate for the work being performed. For example, staff or specialist skills are needed in statistical sampling, if the work involves use of statistical sampling; information technology, if the work involves review of information systems; engineering, if the work involves review of complex engineering data; and, specialized knowledge in subject matters or audit techniques, if the work calls for such expertise.

Auditors performing work under GAGAS should maintain their professional competence through continuing professional education (CPE). It is primarily the responsibility of individual auditors to improve their professional competence and meet CPE requirements. The OAS has quality control procedures to help ensure that auditors meet CPE requirements including documentation of CPE completed. Detailed training and professional development policies and procedures are discussed in the OAS Administration Manual – Chapter 4. All OAS auditors must comply with the prescribed training policies and procedures.

C.   *INDEPENDENCE*

The OAS and its staff, including contracted audit services personnel, are required to (i) be free from personal and external impairments to independence; (ii) be organizationally independent; and, (iii) maintain an independent attitude and appearance in all matters relating to audit work.

> 1.   Personal Impairments. The auditor is under a professional responsibility to maintain strict independence of judgment in planning and conducting audits and expressing opinions on programs, operations, and financial statements. The auditor must be independent in fact and in appearance. Personal impairments of auditors result from relationships or beliefs that might cause auditors to limit the extent of inquiry, limit disclosure, or weaken or slant audit findings in any way. Circumstances in which OAS

staff members auditing Department activities may encounter personal impairments either in fact or appearance include:

- Personal or financial relationships such as an immediate or close family member holding a significant position at the audited entity or an auditor having a direct or material indirect financial interest in the audited entity;

- Responsibility for managing an entity or making decisions that could affect operations of the entity or program being audited;

- Concurrent or subsequent performance of an audit by the same person who maintained the official accounting records when such services involved: preparing source documents or originating data; authorizing, executing, consummating, or posting transactions; having custody of the entity's funds; or exercising authority on behalf of the entity;

- Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit; and,

- Seeking employment with the entity being audited.

The following procedures will be followed to ensure that auditors and supervisors are aware of potential conflicts of interest, identify personal impairments, and ensure that auditors do not perform audits in instances when they have personal impairments or the appearances of personal impairments.

a. <u>Conduct of Employees</u>. All OAS employees will be provided a copy of the standards of conduct applicable to Departmental employees. These regulations are published as Title 10, Code of Federal Regulations (CFR), Part 1010. Also, employees must certify that they have received and read the handbook *Standards of Ethical Conduct for Employees of the Executive Branch* that includes Part I of Executive Order 12674 and 5 CFR Part 2635, dated August 1992.

b. <u>Ethical Principles</u>. The following five ethical principles should be used to guide the work of auditors who conduct audits in accordance with GAGAS: the public interest; integrity; objectivity; proper use of government information, resources, and position; and professional behavior. Auditors should consider the facts and circumstances of each situation within the framework of these ethical principles. Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct audits in accordance with GAGAS.

c. <u>Outside Employment</u>. All employees, regardless of grade or position, must seek advance approval for outside employment, from the Department's Office of Assistant General Counsel for General Law (Assistant GC), by filing a formal request (Exhibit A) through their Assistant Division Director (AD) and the DAPA. In requesting approval, employees should estimate the number of hours that will be devoted to outside employment. Approval will be granted unless there is a determination that the proposed employment is expected to involve conduct prohibited by statute or regulation. This requirement applies to any form

of non-Federal employment involving personal services. However, approval is not required for participating in activities of a nonprofit, charitable, religious, or civic organization, unless the participation involves professional services or compensation is received. Once a request has been approved by the AD and the DAPA, it will be forwarded to the Assistant GC for final approval. The Assistant GC will directly notify the employee, via email, of final approval for outside employment and send the employee a signed copy of the approved request form.

d.   <u>Financial and Other Disclosures</u>. All OAS auditors must prepare and submit required statements of employment, financial interests, and interests in energy concerns, as required by 10 CFR Part 1010. In addition to this financial reporting requirement, all OAS employees must advise their supervisor if any of the following people are associated or employed by Department contractors, subcontractors, partnering members, or grantees:

1. Spouses/partners
2. Children
3. Parents
4. Siblings
5. Other members of the household

Once notified, the supervisor will advise the DAPA and the Counsel to the IG. The Counsel to the IG will forward the information to the Designated Agency Ethics Official. If appropriate, the supervisor, along with the DAPA and Designated Agency Ethics Official, will address any potential conflicts or appearance issues through mitigation action. This will allow OIG activities to continue to be above reproach in this regard.

e.   <u>Procurement Integrity</u>. When performing contract pre-award audits or when involved in the evaluation and selection of contractors to perform audit services, OAS auditors and their supervisors will comply with the "Procurement Integrity" provisions of the Office of Federal Procurement Policy Act Amendments of 1988, as amended, and implementing regulations.

f.   <u>Supervisory Responsibilities</u>. Managers and supervisors shall be alert for personal impairments of their staff. All potential personal impairments will be discussed prior to the start of an audit, and the results of these discussions will be documented. Potential impairments, if any, will be considered in staff assignments. If potential impairments cannot be avoided in staff assignments, the impairments will be called to the attention of the responsible AIG and the DAPA.

g.   <u>Reporting Potential Impairments</u>. In the event that an OAS employee or a contractor employee is assigned to an audit where he or she has, or believes he or she may be perceived to have, a personal impairment, the employee shall advise their AIG and the DAPA in writing. In full consideration of all pertinent facts, the AIG, in consultation with the DAPA, shall determine whether the staff member should be removed from the audit. Factors considered may include the degree and nature of the impairment, the urgency of the review, and the

availability of alternative staff to accomplish the pertinent mission. The AIG shall prepare a written response to the conflict of interest notification and the response, as well as the employee's written advisement, will be retained in the personnel file. See OIG Directive IG-900B, *Personal Impairments to the Objectivity of Office of Inspector General Personnel*, for additional information. Also, if the impairment is determined to exist but the employee cannot be removed from the audit, then the impairment must be disclosed (see section C.5., "Impairment Disclosure," in this chapter).

2.	External Impairments. All auditors and supervisors should be alert for external factors that could restrict audits or interfere with the auditor's ability to form independent and objective opinions, findings, and conclusions. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. Examples of the factors external to OAS include:

- Interference or influence that improperly limits or modifies the scope of an audit;

- Interference with the selection or application of audit procedures or with the selection of transactions to be examined;

- Unreasonable restrictions on the time allowed to competently complete an audit;

- Interference with the assignment, appointment, and promotion of audit personnel;

- Restrictions on funds or other resources that adversely affect the ability to carry out audit responsibilities;

- Authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report; and,

- Influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

When a potential external impairment condition is identified, auditors and supervisors will call the existence of the condition to the attention of the next level supervisor and attempts will be made to eliminate or compensate for the impairment. If the impairment can be eliminated, the supervisor must document the condition and how it was resolved. If the impairment cannot be eliminated, the impairment will be brought to the attention of the responsible AIG and the DAPA. The AIG, in consultation with the DAPA, will decide whether to continue or decline to perform the audit and document the basis for the decision. If the impairment cannot be removed and the audit is still performed, then the impairment must be disclosed (see section C.5., "Impairment Disclosure," in this chapter).

3.	Organizational Independence. Chapter 2 describes OAS statutory authority under the IG Act and its organizational structure within the OIG and the Department. The OAS

reporting level within the Department generally provides for reasonable independence in performing audits and in reporting audit results. Audit staff should conduct audits in a manner that continually protects the OAS from any organizational impairment. If auditors or supervisors believe they have identified an organizational impairment, they should immediately notify the DAPA in writing.

4. <u>Non-Audit Services.</u> Sometimes an audit organization may perform other professional services (non-audit services) that are not performed in accordance with GAGAS. Audit organizations that provide non-audit services must evaluate whether providing the services creates an independence impairment either in fact or appearance with respect to entities they audit. For example, when performing non-audit services, audit organizations will avoid all non-audit services that involve performing management functions, making management decisions, or performing services that are significant or material to the subject matter of audits or result in auditing their own work. However, GAGAS describes circumstances when certain non-audit services that do not impair auditor independence can be performed, such as providing technical advice or expertise. All requests for non-audit services will be processed through the DAPA. The OAS will consider requests for non-audit services and will ensure that any non-audit services performed comply with GAGAS and do not impair the independence of the OAS or its auditors.

5. <u>Impairment Disclosure.</u> If an audit must be performed in spite of an identified personal or external impairment, it is the OAS's policy to fully disclose the impairment(s) and include a modified GAGAS compliance statement in the scope section of the audit report. The modified GAGAS statement should disclose the impairment and how the impairment affected, or could have affected, the audit and the assurance provided.

a. If an impairment to independence is identified after the audit report is issued, the DIGAS and DAPA should be notified. The DIGAS should assess the impact on the audit. The impairment, the subsequent review, and final resolution must be fully documented. If the DIGAS concludes that the audit was not performed in accordance with GAGAS, they should determine the impact on the auditors' report and notify entity management, those charged with governance, the requesters, or regulatory agencies that have jurisdiction over the audited entity and persons known to be using the audit report.

D. *PROFESSIONAL JUDGMENT*

OAS auditors must use professional judgment in planning and performing audits and in reporting the results. Professional judgment includes exercising reasonable care and professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence. Exercising professional judgment means using sound judgment in establishing audit scope, selecting methodologies, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting tests and procedures and in evaluating and reporting audit results.

When considering audit risk, auditors must also exercise 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.

Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that an auditee's management is dishonest nor of unquestioned honesty. Believing that auditee management is honest is not a reason to accept less than sufficient, appropriate evidence.

Auditors should use sound professional judgment in determining the audit standards that apply to the work to be conducted. Auditors must document any determinations that certain standards do not apply to the audit. In situations where a standard is applicable to an audit but was not followed, auditors must disclose that fact in the scope section of the audit report and include a modified GAGAS compliance statement. The modified GAGAS statement should describe the applicable standard(s) or requirement(s) not followed, why they were not followed, and how the audit and the assurance provided were affected or could have been affected.

E. *QUALITY CONTROL/QUALITY ASSURANCE*

OAS's internal quality controls are intended to result in audits that are performed in accordance with GAGAS and OAS's policies and procedures. To ensure quality work, the OAS performs annual internal quality assurance reviews and participates in periodic external peer reviews. Leadership with the OAS will assume responsibility in assuring the quality of audits performed under GAGAS and ensuring communication of policies and procedures relating to quality. Such policies and communications encourage a culture that recognizes that quality is essential in performing GAGAS audits.

   1.   Internal Quality Control System. This Manual, taken in total, is a compilation of policies and procedures that should result in quality audits and reports. Procedures that are particularly important to this process include:

   a.   Supervisory Review. All audit work and resulting reports will be subject to adequate and timely supervisory review. Chapter 4 discusses audit supervision responsibilities at all staff levels and the timeliness and documentation of supervisory reviews.

   b.   Technical Assistance. The Technology Audit Group (TAG) will facilitate the deployment of technology to all audit groups and will provide assistance, as appropriate, for audits using computer-assisted or other advanced audit techniques. Chapter 7 discusses various advance audit techniques the OAS may use for conducting audits.

   c.   Report Referencing. All draft and final reports will be referenced prior to issuance to ensure that they are supported by sufficient, appropriate audit evidence with appropriate supervisory review. Chapter 8 discusses additional details on report referencing.

   d.   TeamMate. OAS's internal quality control system includes TeamMate, which provides a common platform for documenting, reviewing, storing, and sharing work during and after the audit. See Chapter 6 for details of documenting audit work in TeamMate and also the TeamMate Protocol.

2.   Quality Assurance Program. The OAS has implemented a Quality Assurance (QA) Program that provides audit management with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The QA Program is executed primarily through the annual quality assurance review. In addition, the OAS participates in an external quality assurance program that consists of periodic external peer reviews. Exhibit B discusses the details of the OAS QA Program and the external peer reviews.

The OAS will analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

F.   *OTHER MATTERS*

This section sets forth OAS policies with respect to (1) relying on the work of others; (2) following-up on prior audit findings and recommendations that impact current audit objectives; (3) limitations on access to auditee records and employees; and, (4) keeping audit management informed of potentially significant issues and external inquiries.

1.   Relying on Work of Others. It is OAS policy to coordinate and cooperate with other Federal, State, and local governmental auditors in auditing programs of common interest in order to reduce the amount of work required to accomplish audit objectives and avoid duplicate audit effort. In conducting an audit, auditors may rely on the work of others to the extent feasible once they are satisfied with the quality of the other auditors' work by appropriate tests or by other acceptable methods. OAS auditors should determine whether the other audit/non-audit organizations have an appropriate internal quality control system in place and whether they participate in an external peer review program. In determining whether to rely on the work of others, the OAS auditor should also consider the following guidance.

a.   External Auditors. When the other auditors are external auditors, tests should include making inquiries into the professional reputation, qualifications, and independence of the auditors and obtain the latest peer review report and the accompanying letter of comment. OAS auditors should perform procedures and tests to determine the reliance they can place on the external auditor's work. Procedures could include reviewing the other auditor's audit program, procedures, supporting documentation, internal control assessments, and conclusions and performing additional testing as considered necessary.

b.   Internal Auditors. When the other auditors are internal auditors, tests should include determining whether the auditors (1) are competent; (2) comply with applicable standards; (3) are located appropriately in the organization to be free from personal or external impairments to independence and be able to conduct audits objectively; and, (4) perform work that is acceptable by examining, on a test basis, the documentary evidence of the work performed. These tests may either review some of the transactions, balances, or subject matters the internal auditors examined or review similar transactions, balances, or subject matters. Based upon this review, OAS auditors would decide whether to

accept the work of the internal auditors. See also, in Chapter 15, the OIG's assessment of allowable cost audits conducted by internal auditors participating in the Cooperative Audit Strategy.

c.   Non-auditors. When relying on the work of non-auditors (consultants, experts, specialists, etc., other than those hired to assist in the audit), OAS auditors should be satisfied as to the non-auditors' professional reputation, qualifications, and independence from the organization, program, activity, or function under audit. In addition, OAS auditors should obtain an understanding of the methods and significant assumptions used by the non-auditors. In assessing non-auditor's work, OAS auditors should consider whether to review the non-auditor's procedures, work program, results, and supporting documentation and conduct supplemental tests of the non-auditor's work.

d.   Access to Support Documentation. OAS auditors need access to the documentation supporting the work of other auditors and non-auditors to satisfy certain requirements, as stated above. For documentation containing restricted information, guidance in Chapter 6 should be followed. Arrangements need to be made to ensure that documentation will be available upon request to other government audit organizations. All contractual arrangements for government audits should include provisions for access to supporting documentation.

e.   Disclosure of Division of Responsibility. When OAS auditors decide to rely on the work of others, but do not take full responsibility for that work, OAS auditors should indicate in the scope section of the audit report the division of responsibility between the portion of work they conducted and the portion and magnitude of work conducted by others. If other auditors' work is used only for background or informational purposes and is not material or significant to the audit report, the OAS audit report can refer to the other auditors' work even if the OAS auditors did not assess its reliability. In these situations, OAS auditors need only cite the information and its source in the audit report.

2.   Audit Follow-Up. Management of the audited entity is primarily responsible for taking corrective actions and following-up on prior audit recommendations. However, OAS auditors should exercise due professional care by ensuring that they have considered the results of prior audit work and have determined whether entity management has taken appropriate and timely corrective actions. Chapter 9 provides additional guidance on audit follow-up and the Department's Audit Report Tracking System (DARTS).

3.   Limitations on Access to Auditee Records and Employees. Access to records limitations or refusal by officials or employees of the auditee to meet with the auditors are external scope impairments that can restrict an auditor's ability to render objective opinions and conclusions. If OAS auditors encounter access limitations, they should be aware that, in accordance with the IG Act, the OIG is authorized to:

- Have access to all records, databases, information systems, reports, audits, reviews, documents, papers, recommendations, or other material available to

applicable Departmental elements that relate to programs and operations for which the IG has responsibilities;

- Request from any Federal, State, or local governmental agency or unit thereof such information or assistance as may be necessary for carrying out the duties and responsibilities provided by the IG Act;

- Receive and investigate complaints or information from Department employees concerning the possible existence of an activity constituting a violation of law, rules, or regulations, mismanagement, gross waste of funds, abuse of authority, or a substantial and specific danger to the public health and safety; and,

- Require by subpoena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of functions assigned by the IG Act.

Although the OIG is not required to give advance notice or seek the approval of any official in the Department before conducting audits, auditors should attempt to keep the auditee officials and employees informed of audit plans and to otherwise maintain positive working relationships to the extent possible. Accordingly, it is OAS policy that auditors shall attempt to informally resolve access problems before proceeding to formal procedures.

When scope limitations exist, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit, auditors must include a modified GAGAS compliance statement in the scope section of the audit report. The modified GAGAS statement should disclose the scope limitation and how the limitation affected, or could have affected, the audit and the assurance provided

a.   Documenting and Reporting Access Problems. In conducting audits, auditors shall aggressively follow-up on all limitations, delays, or refusals by the auditee to provide access to records or employees. When auditors do encounter access problems, they should maintain a record of all discussions held and actions taken and promptly notify their supervisors when access issues cannot be resolved informally with the auditee. Supervisors will promptly notify their AIG, and the AIG will promptly notify the DAPA and DIGAS.

b.   Enforcement and Subpoena Authority. Although the IG can subpoena various information and documentary evidence in the performance of assigned responsibilities, this authority will normally be used only after appropriate consideration has been given to other means for obtaining the desired information or records. If auditors believe that a subpoena is vital for conducting their audit, they should prepare a request in accordance with the guidance in OIG Directive IG-916, *Issuance of Inspector General Subpoenas*, and forward the request through their AIG to the DAPA and DIGAS for concurrence and further processing.

    c.   Access to Classified Information. OIG personnel will maintain appropriate security clearances to access classified information or secure facilities. Prior to visiting a secure facility, OIG staff will arrange for the submission of Department Form 5631-20, *Request for Visit or Access Approval*, to the OIG Headquarters Security Officer, Human and Administrative Resources, Office of Resource Management.

4.   Keeping OIG Management Informed and External Inquiries. The nature of work performed in the OIG often involves areas of high visibility or considerable interest to both internal and external parties. Events can occur or issues develop concerning which the AIG, DIGAS, or the IG should be promptly informed so that upper-level management can take appropriate and timely action. Examples of such events include issues that are potentially significant and external inquiries from the media, Congress, and other parties.

    a.   Potentially Significant Issues. All auditors are responsible for keeping their supervisors and the AIG informed of potential significant events, problem areas, or other issues involving high visibility within the Department. This includes significant findings, access to records limitations, potential legal proceedings, and other significant issues. The AIG will determine which and how such items will be brought to the immediate attention of the DIGAS. For urgent matters, the DIGAS should be promptly informed by telephone, facsimile, or e-mail. It is the DIGAS' responsibility to keep the IG informed of appropriate matters. Responsibilities and procedures for informing the DIGAS and the Office of Investigations of indications of fraud and other illegal acts are discussed in Chapter 4.

    b.   Media Inquiries. It is OIG policy that all media inquiries are responded to by the OIG Media Liaison to ensure consistency of approach and provide accurate and complete data. In accordance with OIG Directive IG-905E, *Media Inquiries*, the following procedures will apply to all OAS auditors and staff for all contacts by the media:

        (1)   Referral to the OIG Media Liaison. If OAS staff members at Headquarters or field offices are contacted by the media, they are to neither provide any information nor answer any questions. Rather, they shall advise the media inquirer that all media inquiries should be directed to the OIG Media Liaison. The staff member shall then immediately advise the OIG Media Liaison, the DAPA, and their AIG about the media contact.

        (2)   Involvement Ends After Referral. Once the OAS staff member has referred the requester to the OIG Media Liaison and has advised management, the staff member has no further responsibility in this matter and shall not make any further comment, except as directed by the OIG Media Liaison, the DAPA, or their AIG.

        (3)   Disclosure. OAS staff members should be aware that there may be legal or policy reasons for withholding information from media representatives; and, therefore, it may be appropriate for the OIG Media

Liaison to disclose less than the full amount of information available. In particular, the OIG Media Liaison will release information on ongoing investigations and audits only with the specific approval of the DIGAS and in accordance with OIG Directive IG-905E.

c.   Congressional Inquiries. It is OIG policy to cooperate with Congress and to respond to Congressional inquiries as fully as possible and in a timely fashion. All Congressional inquiries, both oral and written, will be referred to and coordinated through the Counsel to the IG in accordance with OIG Directive IG-906B, *Congressional Inquiries*.

d.   GAO Inquiries. All GAO inquiries should be referred to the AIG for Performance Audits.

e.   DCAA. Contacts with the Defense Contract Audit Agency (DCAA) should be documented by memorandum and provided to the AIG when substantive matters are discussed.

f.   Subpoenas or Depositions. OAS employees or former employees may be requested to answer questions pertaining to information and material obtained, developed, or acquired during the course of official duties or because of the employee's official status with the OIG. Specifically, employees may be subpoenaed by courts or other authorities as witnesses to produce documents or to give testimony or depositions. However, in accordance with 10 CFR, Part 202, *Production or Disclosure of Material or Information*, no OAS employee may answer a subpoena or other demand or give a deposition relating to information or material developed or acquired during the course of official duties or because of the employee's official status with the OIG without approval of the Department's General Counsel. Therefore, any employee or former employee faced with such a request shall notify the IG, through appropriate notification procedures, in accordance with OIG Directive IG-926B, *Notification of the Inspector General When An Employee or Former Employee Receives a Subpoena or Other Court Demand*.

g.   Requests for Confidentiality. Occasionally, auditors may receive information from individuals who request confidentiality. Auditors who encounter this situation should immediately discuss the matter with their supervisors. In discussing the information with officials outside of the OIG, auditors should exercise extreme care not to disclose the source of any confidential information received. If appropriate, such matters should be coordinated with the Office of Investigations. Occasionally, auditors may receive information from individuals who request confidentiality. Auditors who encounter this situation should immediately discuss the matter with their supervisors.

REQUEST FOR APPROVAL OF OUTSIDE EMPLOYMENT

THROUGH: _____

Supervisor

_____

Title

TO: Office of Assistant General Counsel for General Law (GC-77)

FROM:

DATE:

In accordance with 5 C.F.R. 3301.103, I hereby request approval to engage in outside employment as described below:

_____

Name of prospective employer

_____

Type of work (*e.g.,* accountant, book editor, sales associate)

_____

Proposed dates of employment (*e.g.,* 11/2009-1/2010 or starting 11/2009)

APPROVED:

_____   _____

Supervisor's signature   Date

_____   _____

Counselor's signature   Date

QUALITY ASSURANCE PROGRAM

A.   BACKGROUND

GAGAS require audit organizations to have an internal quality control system that provides reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures. Each audit organization must document its quality control policies and procedures and communicate them to its personnel.

The OAS quality control system encompasses actions taken by individual auditors, auditors-in-charge, team leaders, and audit management to ensure that audit work complies with GAGAS and applicable laws and regulations. Supervisory reviews of audit programs, workpapers, and audit results along with division and Headquarters reviews of audit products and the independent referencing of audit reports are part of the quality control system. In addition, controls over personnel hiring, promotions, and training provide assurance that individual auditors are competent and meet GAGAS requirements for continuing professional education. Annual financial disclosure statements provide general assurance that auditors do not have impairments to their independence, and audit management is responsible for assigning and managing audit staff resources in a manner that promotes objectivity and independence.

An effective quality control system also includes an effective quality assurance program. The Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Audit Committee Policy Statement on Internal Quality Control Systems and External Peer Review Programs* (Statement) states that the scope of an internal quality assurance review should include a determination of the degree of compliance with GAGAS, applicable OMB Circulars, applicable CIGIE Council audit policy statements, and appropriate statutory provisions applicable to an audit organization. The Statement also establishes required characteristics for the leadership, organization, documentation, and reporting of internal quality assurance programs.

B.   OFFICE OF AUDIT SERVICES QUALITY ASSURANCE PROGRAM

The OAS Quality Assurance Program (QA Program) provides audit management with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The QA Program is executed primarily through the annual quality assurance review (QA review).

> 1.   Purpose. The purpose of the QA Program and QA review is to provide an evaluation of: (1) adherence to professional standards and legal and regulatory requirements; (2) whether the quality control system has been appropriately designed; and, (3) whether quality control policies and procedures are operating effectively and complied with in practice.

> 2.   Scope. The QA Program encompasses the entire audit process within the OAS and includes all completed audits and reports issued by various field offices during each fiscal year. Controls over personnel qualifications and independence will be reviewed

approximately every three years and spot checks of those controls may be made as part of QA reviews of individual audits.

3.   Methodology. The QA Program uses peer review checklists developed by the CIGIE and an internal OAS QA checklist as a starting point for each annual review. Review steps will address pertinent portions of CIGIE checklists and expand on areas of vulnerability. At a minimum, all reviews cover: (1) approval and execution of audit programs; (2) supervisory review of workpapers and audit work; and, (3) cross-indexing and independent referencing of audit reports. Further, each review focuses on an aspect of the audit process such as audit planning, preparation of audit reports, documentation of evidence in workpapers, audit and personnel management, and other areas that could affect the organization's compliance with GAGAS. In addition, QA reviews ensure that recommendations from prior external peer and internal QA reviews have been addressed.

C.   *PROGRAM IMPLEMENTATION RESPONSIBILITIES*

The DAPA is responsible for implementing the QA Program. Under the direction of the DAPA, a senior auditor (QA Reviewer) plans, executes, and manages the annual QA review and reports the results directly to the DIGAS.

1.   Planning. The DAPA and the QA Reviewer develop the annual QA review plan. Focus topics for QA review are selected based upon organizational needs as expressed by the DIGAS and the Division Directors.

2.   Execution. QA reviews are conducted according to applicable GAGAS. The QA Reviewer develops specific review steps to collect and analyze data, brief field managers, and prepare a written report. The QA review and its conclusions are documented in workpapers that are prepared in TeamMate and identify the source and extent of positive and negative conditions reported.

3.   Management. The QA Reviewer directs and supervises the efforts of any staff level auditors assigned to the review. If needed, auditors from the field offices will be temporarily assigned to Headquarters to participate in the QA reviews. The QA Reviewer has overall responsibility for conducting the reviews, documenting the results, and preparing the reports. These steps will not require supervisory approval by the DAPA.

4.   Reporting. The QA Reviewer discusses the QA review results, findings, and recommendations with the responsible team leaders. The QA Reviewer prepares a draft report on the overall results with assistance from assigned team members. The DAPA is responsible for providing written comments on the draft report's findings and recommendations before the report is finalized. Disagreements on findings and recommendations that cannot be resolved between the responsible AIG, the DAPA, and the QA Reviewer will be elevated to the DIGAS for resolution. The final quality assurance report with the DAPA's comments will be issued internally within OAS by the QA Reviewer and addressed to the DIGAS. Because the report is an internal summary document, report referencing is not required unless deemed necessary by the QA Reviewer.

5.   Staffing. Before each quality assurance review, the QA Reviewer estimates whether assistance of staff auditors will be needed and the anticipated length of the assignment. The responsible AIG is requested to identify auditors available for this temporary assignment. In no circumstances will auditors participate in a QA review of audits in their current division or in a field office to which they were assigned in the previous two years. The duration of any temporary assignment to a QA review team will depend on the complexity of the review topic, the number of offices to be reviewed, and the total number of staff assigned. The auditor's assigned division is responsible for the travel costs of auditors assigned to QA reviews.

6.   Frequency of Reviews. The OAPA conducts at least one QA review each fiscal year. Each field office is reviewed at least once every three years on a rotational basis. The QA Reviewer selects the specific audits that will be reviewed at each field office. The aim of the selection is to review a cross-section of different types of audits and work performed by different auditors-in-charge at each office.

7.   Follow-up Responsibilities. The QA Reviewer follows up and documents prior quality assurance and external peer review recommendations made to OAS management. The results of follow-up reviews are reported to the DIGAS as part of the annual QA review.

D.   **EXTERNAL PEER REVIEW**

Audit organization performing audits in accordance with GAGAS must have an independent external peer review every three years. The OAS participates in a peer review program and receives a peer review at least once every three years by an independent organization, usually an Office of Inspector General from another Federal agency that is a member of the CIGIE. These reviews are performed in accordance with the CIGIE guidelines. Likewise, the OAS participates in performing peer reviews at another Federal agency every three years.

The external peer review will determine whether, for the period under review, the OAS's internal quality control system was suitably designed and whether the OAS is complying with its quality control system in order to provide OAS with reasonable assurance of conforming to applicable professional standards. The OAS will take remedial, corrective actions as needed based on the results of the peer review. External audit organizations shall make peer review reports publicly available.

An audit organization's noncompliance with the peer review requirements results in a modified GAGAS compliance statement. An audit organizations compliance (or noncompliance) with the requirements for a system of quality control are tested and reported as part of the peer review process and do not impact the GAGAS compliance statement.

CHAPTER 4

GENERAL FIELD WORK POLICIES

A.   *SCOPE OF CHAPTER*

This chapter discusses general OAS policies that apply to all audit fieldwork.

B.   *FIELD WORK REQUIREMENTS*

Essential to all audits are planning, audit documentation, advanced audit techniques, supervision, and handling instances of fraud, abuse and illegal acts.

> 1.   Planning. Effective planning is an essential fieldwork standard for all audits. Work must be adequately planned for OAS audits, examinations, and reviews to accomplish their objective. Chapter 5 deals with the OIG's workload planning process to identify audit areas and to assure adequate audit coverage, efficient use of resources, and consistency and quality in all OAS audits. In addition, Chapter 5 discusses planning considerations for an audit, such as deciding on the audit objective, understanding applicable criteria, and considering internal controls, risk, and materiality,

> 2.   Audit Documentation. Chapter 6 discusses policies and practices for preparing audit documentation that provides a record of information and evidence supporting the findings, conclusions, and recommendations contained in an OAS report and to comply with GAGAS.

> 3.   Advanced Audit Techniques. Chapter 7 provides policies and practices to be followed when using computers, ensuring that data obtained from computer-based systems is reliable and accurate, and utilizing computer-assisted or other advanced audit techniques

> 4.   Supervision. Audit supervision is discussed in Section C of this chapter.

> 5.   Fraud, Abuse, and Illegal Acts. The auditor's responsibilities for fraud, abuse, and illegal audits that are encountered during an audit are discussed in Section D of this chapter.

> 6.   Specific Requirements. Chapters 10, 12, 13, and 15 provide detailed guidance for conducting fieldwork for different types of audits. Specifically, Chapter 10 discusses performance audits, Chapter 12 discusses financial statement audits, Chapter 13 discusses contract audits, and Chapter 15 discusses audits of Statements of Costs Incurred and Claimed at management and operating contractors.

C.   *SUPERVISION*

Effective supervision is essential to the overall quality of an audit. Audit supervision involves providing sufficient guidance and direction to the audit staff to ensure that audit objectives are addressed and applicable standards are followed. In addition, supervision requires staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.   Generally, higher-level supervisors can provide a broader perspective to help focus and sharpen audit objectives, select effective audit methodologies and reporting approaches, and determine the scope of work or resources that should be devoted to an audit in relation to other

audit requirements and priorities. As an audit progresses, timely supervisory reviews can help the audit team deal with unanticipated situations and identify additional work needed to substantiate and refine audit conclusions.

1. Responsibilities. The DIGAS and the AIG are ultimately responsible for all audit assignments and for ensuring that their staffs receive appropriate guidance. The AIG has responsibility for providing in process reviews of selected audits on behalf of the DIGAS. Proper supervision is necessary throughout an assignment, with each level of staff having specific responsibilities for ensuring that audits are performed in accordance with GAGAS and OAS policies and procedures. The various OAS staffing levels and their respective responsibilities follow:

- Auditor – The auditor performs assigned audit work in accordance with GAGAS and OAS policies and procedures. Depending on experience, skills, and job knowledge, the auditor will normally have responsibility for an audit segment or specific audit steps.

- Auditor-in Charge (AIC) – It is the responsibility of the AIC to direct each audit through it various phases from planning to reporting and to ensure that the audit is performed in accordance with GAGAS and OAS policies and procedures. AIC responsibilities include preparing audit programs, gathering and analyzing data, documenting audit evidence, and preparing initial report drafts. The AIC provides the first level of review for work performed by assigned auditors. A more detailed description of AIC responsibilities is found in Exhibit A.

- Team Leader (TL) – The TL ensures that audits are performed in accordance with GAGAS and OAS policies and procedures. TLs provide the first level of review of audit programs, overall audit supporting documentation, and tentative findings. A more detailed description of TL responsibilities is found in Exhibit B.

- Assistant Division Director (AD) – The ADs provide supervision and professional leadership for all audit work in their area of responsibility to ensure that GAGAS and OAS policies and procedures are followed. ADs are responsible for completing the *Assistant Director Checklist* found in Exhibit C for every audit and attestation engagement.

- Division Director (DD) and AIG – DDs and the AIG have responsibility for field office direction, supervision, and final review of all audit work in the areas for which they are responsible. They ensure that audits are performed in accordance with GAGAS and OAS policies and procedures.

2. Timeliness of Supervision. Supervision is a continuous process. To be effective, it must be timely and include sufficient interim checks throughout the audit to ensure that work is properly planned, on schedule, and is being performed in accordance with GAGAS and OAS policies and procedures. Effective supervision requires AICs to keep their TLs informed and for TLs and their supervisors to make adjustments in audits as necessary to deal with changing or unanticipated circumstances. However, the proficiency and experience of the auditors and the difficulty of the audit assignment will affect the extent and timing of supervision required. To ensure that supervision is timely, interim reviews of audit documentation should be completed by

AICs at least bi-weekly and by TLs or ADs at least monthly. Furthermore, TLs and their supervisors are responsible for:

- Providing adequate guidance and direction throughout an audit, including suitable instructions to subordinates at the beginning of an audit commensurate with the abilities and experience of the assigned staff;

- Approving audit programs in advance and ensuring that programs are carried out and the audit objective is met, unless deviations are justified and authorized in writing; and,

- Monitoring audit progress to ensure that auditors exercise professional judgment, work is being conducted in accordance with GAGAS and OAS policies and procedures, and audit findings and conclusions are adequately supported.

3.   Documentation of Supervision. Supervisors are responsible for ensuring that appropriate evidence of their reviews is documented and retained in the TeamMate audit file and in accordance with the procedures provided in Chapter 6. Although signoffs of workpapers in TeamMate indicate that the workpaper has been reviewed, it does not document the points raised or the guidance provided by the reviewer. Therefore, TeamMate coaching notes will be used to document any points, questions, comments, or issues raised by a reviewer along with the auditor's response and the reviewer's ultimate acceptance. Differences of opinion between the auditor and the reviewer concerning accounting and auditing issues will be documented and presented to higher-level supervisors to be resolved. The AD's supervision will also be documented using the *Assistant Director Checklist*, located at Exhibit C, which will be included in the TeamMate audit file.

D.   *FRAUD, ABUSE AND ILLEGAL ACTS*

Auditors are generally not responsible for conducting "investigations" of fraud, abuse, or illegal acts. However, auditors are required to be aware of the types and characteristics of illegal acts associated with the area being audited in order to be able to identify indications that these acts may have occurred and be alert to situations or transactions that could be indicative of such acts. Auditors who identify questionable activities have certain responsibilities concerning (1) notifying OAS management; (2) coordinating with the Office of Investigations, through channels designated by the DIGAS; and, (3) if necessary, adjusting planned audit steps with supervisory approval. Notification of OAS management and coordination with the Office of Investigations should be timely and not delayed until the end of the audit.

1.   Notifying OAS Management.   When OAS personnel become aware of possible criminal or civil violations through audit activities, or otherwise become aware of allegations of fraud, waste, or abuse, they are to immediately notify their supervisor and the AIG. The AIG is responsible for notifying the DIGAS. The AIC is responsible for documenting any indications of potential criminal violations and other types of illegal conduct. At a minimum, the documentation should describe the statute, regulation, etc., believed to be violated and the questionable activities or indications of illegal acts. If the questionable activities were discussed with Office of Investigation personnel at the local

level, the Confirmation of Referral (described in section C.2.a., below) should satisfy the documentation requirement. Otherwise, a Memorandum of Referral should be prepared. In either case, the memorandum must be sent through the DD and AIG to the DIGAS. A copy of the documentation prepared, including any Memorandum of Referral or Confirmation of Referral, should be retained. This documentation should be added to the TeamMate audit file if reference is made to the referral in an audit report. The AIG will ensure that any Memorandum of Referral or Confirmation of Referral sent to the DIGAS is forwarded to the AIG for Investigations (AIGI) and the appropriate Assistant Special Agent-in-Charge.

2.   Coordination with the Office of Investigations. OIG policy requires all OAS personnel having knowledge of possible criminal violations to immediately refer the information to the Office of Investigations through the channels designated by the DIGAS, in accordance with OIG Directive IG-904B, *Coordination of Investigative Matters.*

      a.   Referrals. DDs and ADs are authorized and encouraged to consult with and discuss referrals with the local senior investigators. Formal referrals to the Office of Investigations will be made as necessary based on the circumstances, and such referrals shall be documented with the salient points of the allegation and include any supporting documentation. When a referral is made at the local (or higher) level, a memorandum entitled "Confirmation of Referral" shall be prepared and sent to the DIGAS documenting the referral. This memorandum, not to exceed one page, should describe (1) how the referral came about (the source of the information); (2) the characteristics that led the auditor to pursue the potential illegal act; (3) the regulation or other criteria believed to be violated; and, (4) the name and telephone number of the auditor most familiar with the referral. The memorandum should also request that notification be made to the OAS contact if an investigation is opened.

      b.   Continuation of Audit. The DIGAS, in consultation with the AIGI, shall decide whether continuation of the audit will interfere with or compromise an investigation. Audit work shall not be delayed or discontinued without the DIGAS's explicit approval.

      c.   Release of Information. All OAS personnel are cautioned that, if they do become aware of a pending or on-going investigation, they are not to reveal the existence of the investigation, discuss it with anyone other than OIG personnel who need to be aware of it, or to otherwise release information about the investigation without the prior consent of the DIGAS.

      d.   Audit Documentations. Auditors should cooperate fully with OIG investigators. This includes allowing OIG investigators to examine audit documentation.

      e.   Coordination. Additional requirements for coordinating with the Office of Investigations and the Office of Inspections are found in Chapter 5.

3.   Adjusting Scope of Audit Steps. If information of possible abuse or illegal acts comes to an audit team's attention, the team is responsible for considering the potential

impact of these acts on audit results. If audit results could be significantly affected, the audit team may need to extend the audit steps and procedures, as necessary, to determine whether the acts occurred, and if so, to determine the extent to which audit results were affected. However, major adjustments in scope may not be necessary if the audit team has properly planned the audit and included steps to evaluate compliance with laws and regulations and to detect and report significant illegal acts and abuses. For financial statement audits, auditors must do sufficient testing to ensure that possible fraud or illegal acts do not have a material effect, either directly or indirectly, on the financial statements. For all audits, the extent of additional testing requires judgment and experience in order to perform sufficient steps to detect major noncompliance without spending an unreasonable amount of resources. Although auditors need to exercise due professional care and caution in pursuing indications of fraud or illegal acts so as not to interfere with potential future investigations or legal proceedings, the belief that auditors can easily jeopardize a legal case by aggressively pursuing indications of fraud or illegal acts lacks foundation. More frequently, auditors do not go far enough with their testing. Early coordination with the Office of Investigations is a key to assuring a careful and successful examination of potentially illegal acts. (See Chapter 5 for additional planning guidance.)

4.   Reporting Fraud or Illegal Acts. When fraud or illegal acts, or their potential, are identified, auditors should follow the guidance in the OAS Report Style Manual for specific policies and procedures for handling these issues in the audit report.

AUDITOR-IN-CHARGE ROLES AND RESPONSIBILITIES

The Auditor-In-Charge (AIC) is responsible for directing specific audits. The AIC must be able to direct each audit through its various phases, from survey to reporting, in an expeditious and professional manner and ensure that established policies, procedures and professional audit standards are effectively applied. Normally, the AIC will be assigned to an audit for its full duration, regardless of other staffing adjustments that may be made; and in this role, the AIC is expected to become the single, most knowledgeable individual on the audit. The AIC's responsibilities include:

A.   *WORKING RELATIONSHIPS*

The AIC will take the lead on an assignment by keeping management informed, coordinating audit activities, and maintaining effective working relationships.

      1.   Keep Management Informed. The AIC will keep supervisors and other OIG management informed of potentially significant events, trouble areas, high visibility issues, access to records problems, potential legal proceedings or illegal acts, and inquiries by the media, Government Accountability Office (GAO), members of Congress, etc.

      2.   Personnel and Administration. The AIC will follow established OIG procedures for personnel administration and discipline, employment policies, time and attendance, leave administration, and travel.

      3.   Audit Coordination. As necessary, the AIC will coordinate the audit efforts internally within the OIG and externally with Department contractor internal auditors and with other audit organizations such as GAO, DCAA, other OIGs, and State or local auditors.

      4.   Keep Staff Informed. In addition to providing information "up-the-chain", the AIC must also work to ensure effective communication with their staff.

B.   *SUPERVISION*

The AIC will supervise audit activities to ensure that they are performed in accordance with GAGAS and OAS policies and procedures. Specifically, the AIC will (1) ensure that staff are assigned tasks commensurate with their abilities and are used in a productive manner; (2) work with staff to identify specific needs and to develop needed skills and abilities; (3) provide the first level of review for work performed by assigned staff, to include reviewing all evidence supporting findings and recommendations; (4) provide "on-the-job training" (OJT) to trainees, prepare OJT accomplishment records, and assist in evaluating trainee performance; and, (5) conduct and document bi-weekly reviews of evidence and documentation prepared by staff.

C.   *PLANNING*

The AIC is responsible for the planning of an audit, which includes establishing how the audit objective can be met while making optimum use of limited audit resources. Plans for an audit will be reflected in the audit programs for survey and verification work that comply with audit standards and policies and are consistent with the approved audit objective.

1.   Audit Objective. The AIC will address the audit objective, scope, and methodology in the audit program and ensure that the scope of work and methodology, such as audit techniques to be used, are consistent with the audit objective.

2.   Laws and Regulations. Consistent with the audit objective, the AIC will design audit steps to assess compliance with relevant laws and regulations and to provide reasonable assurance of detecting fraud, abuse or other illegal acts.

3.   Internal Controls Testing. The AIC is required to design audit steps to document their understanding of the internal control structure and assess whether internal controls significant to the audit objective have been properly designed and implemented.

4.   Transaction Testing. The AIC will normally design transaction tests to evaluate internal controls, determine compliance with laws and regulations, reach conclusions on the audit objective, and determine the significance or extent of potential findings. In planning audit steps at the Department's management and operating contractors, the AIC should consider the testing done by other auditors, especially that conducted by contractor internal auditors.

5.   Testing for Data Reliability. The AIC will (1) determine the level of review and testing needed to ensure the reliability of computer-processed data that is significant to the audit objective and (2) coordinate these plans with their TL and the Technology Audit Group, if needed.

6.   Audit Follow-up. The AIC is required to identify prior and concurrent reviews or audits that cover the same or related subject matter as their current assigned audit and to follow-up on the status of the findings and recommendations.

7.   Government Performance and Results Act of 1993 (GPRA). The AIC is required to design audit steps in all performance audits to evaluate how the Department is implementing GPRA for the area(s) being reviewed and include the results in the audit report.

D.   *INITIATING AN AUDIT*

The AIC will ensure that audits are properly authorized and that the auditee is kept informed of audit objectives and scope of planned work. The AIC should ensure that the audit objective and audit/survey program has been approved by the TL and AD before the audit work begins.

1.   Letter of Notification. The AIC will prepare Letters of Notification that appropriately state the purpose of the audit and scope of planned work.

2.   Entrance Conference. The AIC will attend the entrance conference for their assigned audit and record the results of the meeting.

3.   "Kick-Off" Meetings. The AIC will arrange for "kick-off" meetings at subordinate levels of an audited entity before initiating audit work.

E.   *SURVEY WORK*

Within the survey framework, the AIC is responsible for gathering data, identifying potential findings, and determining the nature and scope of audit work that would be needed to verify the findings. At the end of the survey, usually 75-90 days from the entrance conference, the audit team will have a Go or No-Go meeting with their AD. If the meeting results in a No-Go

decision, the team will either prepare a Letter Report or a Termination Letter. The AIC will document the No-Go decision with a memo to the file that is signed off by the AD stating the rational for the decision and include this memo in the workpapers. If the meeting results in a Go decision, the staff will prepare an End-of-Survey (EOS) document that is an outline of the proposed report. The EOS document will be forwarded to the Headquarters for review and comment. After addressing all comments, the EOS document will be sent to the Division Director and the AIG for concurrent review. An example of a Go decision EOS document (outline) can be found at Exhibit E of this chapter. In some cases, the EOS will recommend that the audit objective be modified. See section F.1., below, concerning a revised audit objective.

F.   *CONDUCTING VERIFICATION WORK*

The AIC will ensure that essential information to accomplish the audit objective is gathered, analyzed, interpreted, and documented during verification work. The AIC will translate planned audit steps into tasks or work segments that can be assigned to and carried out by individual staff members. The AIC takes the initiative to assess the efficiency and effectiveness of audit steps and make or recommend adjustments whenever audit steps are not providing supportable conclusions on the audit objective or are inefficient.

1.   Revised Audit Objective and Audit Program. The AIC is responsible for ensuring that any revisions to the audit objective are approved and reflected in the audit program and that any redirection of the audit is communicated to the auditee. Any significant change to the audit objective must be approved by the responsible AIG - the revised audit objective should also be entered into EIGPTS with a note indicating that the objective was revised. Additionally, any significant changes in the audit program must be approved by the TL and AD before the verification work begins.

2.   Audit Evidence/Techniques. The AIC will ensure that appropriate techniques are used in gathering, documenting, analyzing, and summarizing audit evidence that is sufficient and appropriate for the audit objective.

a.   Data from Computer-Based Systems. The AIC will ensure that a reliability assessment is made when computer-processed data or information is (1) significant to the audit objective or, (2) to be used in a report or in support of a finding.

b.   Data Gathering and Sampling Techniques. The AIC will follow appropriate Department approval procedures (which incorporate OMB guidance) when using questionnaires and structured interview forms. AICs will also use appropriate sampling techniques and ensure that any conclusions made are valid, with particular attention paid to the (1) basis for sample selection; (2) size of audit universe; (3) attributes of the sample, such as error rates, sample interval, and confidence levels; (4) results of the sample; and, (5) basis for projecting sample results.

c.   Illegal Acts. The AIC is responsible for documenting any indication of potential criminal violations and other types of illegal conduct. See Chapter 4, item D, for more details on responsibilities concerning detecting and reporting fraud, abuse, and illegal acts.

d.   Internal Controls. The AIC is required to document in the workpapers their understanding of the internal control structure and their assessment of whether internal controls significant to the audit objective have been properly designed and implemented.

3.   Audit Documentation. The AIC will ensure that audit documentation is prepared and maintained in TeamMate in accordance with the latest TeamMate protocol, GAGAS, and OAS policies and procedures. See Chapter 6 for details on audit documentation. The AIC will ensure that audit documentation is properly safeguarded and any classified information obtained is handled, controlled, stored, and mailed in accordance with Department requirements.

G.   *REPORTING AUDIT RESULTS*

The AIC will ensure that all audit results for their assignments are reported in accordance with GAGAS and OAS reporting policies and procedures.

1.   Draft Report. The AIC will prepare a draft report in accordance with prescribed reporting policies and formats. The AIC will ensure that findings are fully developed and claimed savings are carefully documented and verified for factual accuracy by the auditee. All performance audit reports must, at a minimum, refer to the GPRA, address the performance standards evaluated, and discuss the results of our review. When the GPRA requirements have not been implemented, the report should include appropriate audit recommendations as discussed in Chapter 1 of the OAS Report Style Manual.

2.   Referencing. The AIC will ensure that a report is properly cross-indexed and prepared for referencing. The OAS *TeamMate Protocol* discusses the procedures for cross-indexing and referencing.

3.   Exit Conference. The AIC will attend the exit conference for their assigned audit and record the results of the meeting.

4.   Final Report. The AIC will prepare final reports that reflect management comments and are written in accordance with GAGAS and OAS reporting policies and procedures. A matrix showing how management comments were addressed should be prepared and included in the audit file. See the OAS Report Style Manual, Chapters 1 & 2, and Chapter 2 Exhibit J for more details on the matrix.

H.   *ADMINISTRATIVE/OTHER DUTIES*

The AIC is responsible for ensuring compliance with various administrative and personnel requirements and to perform other duties, as assigned.

1.   Action Items. Consistent with their assigned audits, the AIC may be asked to help process action items, such as short suspense requirements, on behalf of the AIG or OAS headquarters.

2.   Database Input. The AIC should enter information in the EIGPTS database each Friday to ensure that job status, milestones, time charges, comments, and other information are current and accurate.

3.   Identifying Audit Ideas. The AIC will be alert to identifying audit ideas for subsequent audits, and will submit audit lead sheets or audit profiles whenever potential audit issues are identified. AIC will also encourage assigned audit staff to identify ideas and submit audit lead sheets or profiles.

TEAM LEADER ROLES AND RESPONSIBILITIES

The Team Leader (TL) manages and directs audit operations at various field sites under the AIG for Performance Audits and the Division Directors. The TL provides supervision and professional leadership to staff auditors conducting financial and performance audits of Department activities, programs, and organizations. TL are responsible for (1) general management activities; (2) directing specific assignments; (3) developing functional or technical expertise consistent with assigned audit areas; and (4) handling various administrative duties on behalf of the OIG:

A.   *GENERAL MANAGEMENT ACTIVITIES*

The TL is responsible for the overall management of activities for their audit group. Specific requirements include:

1.   Keeping Management Informed. The TL should keep OIG management informed of potentially significant events, problem areas, high visibility issues, access to records denials, potential legal proceedings or illegal acts, and inquiries by the media, GAO, members of the Congress, etc. Specific requirements include:

- Preparing weekly activity reports.

- Referring media inquiries to Headquarters.

- Arranging for and participating in team leader meetings and visits by OIG management.

- Briefing OIG management on issues as requested.

- Informing OAS management if indications of fraud or other illegal acts are disclosed during an audit.

2.   Staff Supervision. As the senior supervisor at a site, The TL will ensure that audit and administrative staff perform assigned duties in accordance with OAS standards and procedures. Specifically, they will:

- Ensure that audit and administrative staff are assigned tasks commensurate with their abilities, are productively utilized, and perform their assigned tasks in an appropriate and professional manner.

- Provide the first level of review of audit programs, work performed, audit evidence and documentation, and potential findings.

- Review each audit's TeamMate file and all audit documentation prepared by the AIC at least monthly.

- Document reviews and the resolution of review comments and points raised.

- Be alert to personal impairments of their staff.

3.   Coordination/Liaison. The TL will maintain liaison with various organizations for work involving their assigned audit area. This includes:

- Periodically meeting with Department and contractor officials to discuss OIG audits and other issues.

- Establishing a direct relationship with internal auditors at management and operating contractors. However, any instructions to the internal auditors will be issued through the appropriate Contracting Officers.

- Coordinating audit coverage in their audit area with external audit groups such as GAO, DCAA, other OIGs, and State or local auditors.

- Coordinating audit work required at other locations with the affected offices and keeping the AIG apprised of all interdivision audit activity.

- Ensuring that audit work under their control is coordinated with the Office of Investigations and Office of Inspections to (1) determine whether investigative and inspection information would help in developing audit findings and (2) ensure that audit work or release of findings will not interfere with an ongoing investigation or inspection.

4.   Security. The TL has overall responsibility for security at their audit group's site which includes ensuring that:

- All local security requirements are followed.

- Classified information is handled, controlled, stored and mailed in accordance with Department requirements.

- Audit documentations, equipment, and facilities are adequately secured and safeguarded.

- Requests for security clearances are submitted in a timely manner.

5.   Training and Development. The TL will take a proactive role in the training and development of their staff. The TL will:

- Work with staff, particularly AICs, to identify specific needs and to develop needed skills and abilities.

- Ensure adequate oversight and training for trainees, to include reviewing on-the-job training (OJT) accomplishment records, and providing input to their performance and discussions about their career progress.

6.   Keep Staff Informed. In addition to providing information to management, the TL must also work to ensure effective communication with their staff.

B.   *DIRECT SPECIFIC ASSIGNMENTS*

The TL will supervise, direct, or otherwise monitor all audits within their assigned audit area. In carrying out this function, the TL will control and schedule all jobs under their supervision. They will either perform the required tasks or assign duties to the AIC and other staff with due regards for job requirements and staff capabilities. Where the AIC is assigned responsibility for an audit, the TL will ensure that they (1) are informed of their expected duties as discussed in

Exhibit A; (2) perform such duties in an appropriate manner; and (3) are not assigned other duties that would conflict with successful completion of the audit. .

1.   Audit Profiles. The TL will prepare or review planned audit profiles to ensure that profiles are tied directly to the annual programmatic risk assessments.

2.   Letter of Notification. The TL will ensure that letters of notification appropriately state the purpose of the audit and scope of planned work.

3.   Assign Staff. As delegated by management, the TL will ensure that an adequate number of staff with appropriate experience, skills and knowledge are assigned to each audit.

4.   Survey Program. The TL will review and approve survey programs prior to starting the audit to ensure that the nature and scope of work planned is consistent with the audit objective and steps to cover all mandatory areas, such GPRA, internal controls, compliance with laws and regulations, and reliance on computer-processed data are included. In addition, the TL will approve any changes made to the survey program.

5.   Database Input. The TL will periodically review information in EIGPT to ensure that job status, milestones, and comments are accurate and that all required data fields are completed.

6.   Entrance Conference. The TL will attend entrance conferences that affect their assigned audit area.

7.   Site Visits. If audits involve work at other sites, the TL will periodically conduct site visits in order to discuss audit progress and, as appropriate, to offer direction.

8.   End of Survey Outline (EOS). The TL will review the EOS outline for a "Go" decision and submit it to higher levels of management for further review. If the audit objective is revised, it should be input into EIGPT with a note that it was revised at the EOS.

9.   Audit Program. The TL will review and approve audit programs for verification work to ensure that the planned scope of work and audit steps are consistent with the approved audit objective and the EOS outline. The TL will approve the audit program before the work begins. In addition, the TL will approve any changes to the audit program.

10.   Findings and Recommendations. The TL will review the findings and recommendations and the Monetary Impact Statement to ensure that findings are fully developed and that claimed savings are carefully documented.

11.   Referencing. The TL will ensure that draft and final audit reports are referenced prior to issuance.

12.   Draft Report. The TL will ensure that the draft report is written in accordance with OAS reporting policies.

13.   Exit Conference. The TL will attend exit conferences that affect their assigned audit area.

14.   <u>Final Report</u>. The TL will review reports prior to issuance for quality, consistency, compliance with OAS and OIG reporting policies, and ensure that the report reflects management comments. The TL should also ensure that EIGPT is updated to include data on the final report, findings, and savings.

15.   <u>Final Report Package</u>. The TL will prepare the Final Report Package to ensure that all required forms and attachments are completed and forwarded to the OAPA within five days from report issuance date.

16.   <u>Management Decisions</u>. The TL will review Management Decisions to ensure that they are consistent with audit findings and recommendations. Chapter 9 discusses audit follow-up and resolution policies.

C.   *DEVELOP FUNCTIONAL/TECHNICAL EXPERTISE*

The TL should develop an audit team that has sufficient functional or technical expertise to effectively audit all entities or activities within their assigned areas. They will "coach" or otherwise provide guidance, technical direction, and leadership for their staff. Specific requirements include:

1.   <u>Current Files</u>. The TL will ensure that TeamMate files for each audit are prepared in accordance with the TeamMate Protocol.

2.   <u>Permanent Files</u>. The TL will develop, maintain, and periodically update permanent files on organizations or activities in their assigned areas to include information on legislation, budgets, organizational descriptions, prior audit reports, Department directives, and such other information as will assist them in reviewing assigned audits and future workload planning.

3.   <u>General Planning/Audit Guidance</u>. The TL will help evaluate audit ideas and develop audit goals, plans, and guidance for their assigned audit areas.

    a.   <u>Audit Profiles</u>. The TL will submit audit profiles whenever they identify potential audit issues.

    b.   <u>Annual Risk Assessments</u>. Risk assessments are an important planning tool. The TL is responsible for annually preparing and updating risk assessments of the major activities at their sites. These risk assessments will be used to prepare the OAS annual work plan and should be completed by the end of March each year.

4.   <u>Internal Control Assessments</u>. The TL plays a central role in helping the OIG meet its responsibilities for annual assessments of the internal controls maintained by the Department and its contractors.

    a.   <u>Integrated Contractor Audits</u>. The TL will track the status of audits performed of the integrated contractors by their internal auditors.

    b.   <u>Federal Managers' Financial Integrity Act (FMFIA)</u>. The TL will assist in the annual reviews required by the FMFIA.

        c.   <u>Responsibility for SCIC</u>. The TL will sign, if appropriate, the Statement of Costs Incurred and Claimed (SCIC) for integrated contractors. See Chapter 15 for further discussion of the SCIC.

     5.   <u>Action Items</u>. Consistent with their assigned audit areas, the TL may be asked to help process action items, such as short suspense requirements, on behalf of their AIG or OAS headquarters.

     6.   <u>Use of Experts and Consultants</u>. If the audit staff does not have needed specialized training or skills, the TL is responsible for requesting the use of appropriate experts and consultants through the appropriate AD or DD.

D.   *ADMINISTRATIVE*

The TL should ensure compliance with various administrative and personnel requirements.

     1.   <u>Personnel</u>. The TL is to follow established OIG procedures for personnel administration, work force discipline, and employment policies.

        a.   <u>Recruitment/Promotions</u>. The TL will participate in hiring employees with due regard for OIG policies on affirmative action. Their duties include communicating on openings and interviewing candidates for positions.

        b.   <u>Discipline/Compliance with Rules</u>. The TL will follow prescribed procedures for maintaining work force discipline and compliance with other requirements. Specifically, they will:

- Keep employees informed of rules, regulations, and standards of conduct, and maintain order and discipline within the framework of established procedures.

- Ensure employee compliance with local policies, such as parking, smoking, appropriate dress, and reporting for work during hazardous weather.

- Ensure that assigned staff complies with requirements for seeking advance approval for outside employment, and submitting financial disclosure statements.

- Gather, analyze, and consider carefully all facts and circumstances before recommending corrective action.

     2.   <u>Payroll/Time and Attendance</u>. The TL will follow established OIG procedures for recording time and attendance. The TL will ensure that time is entered into EIGPT timely and that it is consistent with actual time charges for work performed.

     3.   <u>Leave Administration</u>. The TL will follow established OIG procedures for leave administration; including scheduling annual leave with due regard for workload demand and employee needs. Specifically, they will approve annual and sick leave.

     4.   <u>Travel</u>. The TL will ensure that they and their assigned staff follow established OIG travel procedures. Specifically, they will keep their supervisors and AIG informed of inter organizational travel.

5.   <u>Facility/Office Management</u>. The TL will serve as the local OIG representative in establishing reasonable working conditions and local office policies. Specifically, they should:

- Ensure adequate space, facilities, equipment, and supplies for the OIG staff.

- Ensure accuracy of automated data processing equipment inventory.

- Oversee office management, such as mail and telephone.

- Arrange for employee participation in programs such as health screening and security and environmental briefings.

- Ensure that an office filing system is established.

Assistant Division Director Checklist

This checklist must be completed by the Assistant Division Director for each audit to document their review of the work performed, audit evidence, and support in TeamMate. Once completed, please scan this checklist into the TeamMate audit files.

REVIEW OF SELECTED INFORMATION	YES	NO
1. Were referencer comments reviewed **prior** to issuance of both the draft and final reports to ensure all comments were appropriately addressed and closed? (Review must be documented in TeamMate).		
2. Was coordination with Investigations and Inspections performed and documented as required?		
3. Was compliance with GAGAS documented in the audit file?		
4. Did the AIC review the work performed, audit evidence, and support at least bi-weekly and document these reviews?		
5. Did the Team Leader (and Assistant Director if appropriate) review the work performed, audit evidence, and support at least monthly and document these reviews?		
6. Did the Team Leader approve the audit program **prior** to the start of the audit?		
7. Did auditors sign-off on all audit steps to indicate completion of the step?		
8. Were changes to the audit program documented and approved by the Team Leader (or Assistant Division Director if appropriate)?		
9. Did the AIC complete the following checklists: (1) Review of Information that May be Classified or Controlled. (2) Potentially Sensitive Information.		
10. Did you review a sufficient, judgmental sample of the work performed, audit evidence, and support to ensure audit documentation include the appropriate information?		
11. Did you review key workpapers which support the audit findings and evaluate the sufficiency and appropriateness of supporting data?		
12. Did you make comments, as needed, on timeliness of supervisory reviews and on other issues of concern via TeamMate coaching notes?		
13. Did you ensure that the draft and final reports included mandatory statements on GAGAS, GPRA, and reliability of computer processed data?		
Name:	**Date**:	

CHAPTER 5

AUDIT PLANNING

A.　*SCOPE OF CHAPTER*

This chapter describes policies and procedures for developing the OAS's audit plans to assure adequate audit coverage within the Department and efficient use of audit resources.

B.　*AUDIT PLANNING CYCLE*

OAS's primary vehicle for audit planning is the annual planning cycle. For each fiscal year, the cycle begins the previous February and culminates before the start of the fiscal year with the publication of the Annual Performance Plan. During the fiscal year, the OAS makes adjustments to its planned audits in response to unanticipated issues and requests that require timely, and sometimes immediate, attention.

　　1.　Planning Responsibilities. The DAPA is responsible for overseeing the planning and budgeting process for audit resources and associated staff services. The AIGs and DDs are responsible for providing planning information for their respective offices and areas of responsibility to help develop audit plans and budgets. DOE Order 224.2, "Auditing of Programs and Operations," requires the publication on an integrated audit plan. This plan is the OIG Annual Performance Plan, published at the beginning of each fiscal year. As an integral part of the Department, the OIG must also prepare and submit an annual budget. The following are the essential responsibilities for planning what audits will be conducted by the OAS.

　　　　a.　Annual Program Guidance. The DAPA is responsible for providing planning guidance to the field as a basis for identifying the audits that will be included in the Annual Performance Plan. Each February, the DAPA will issue planning guidance for conducting risk assessments, identifying audits, and developing audit plans for the next fiscal year. The guidance sets priorities for OAS audit coverage of Departmental issues and operations and provides submission dates and formats for risk assessments, audit plans, and planned audit profiles. To maximize audit coverage within the Department and avoid duplicative audit work, the DAPA also provides planning guidance to the Department's field and site offices for use by their management evaluation staffs and to the internal audit organizations of the Department's management and operating contractors.

　　　　b.　Risk Assessments. Because of resource limitations, the OAS recognizes that not all programs, functions, or activities in the Department can be audited every year or all aspects covered in each audit. Through its risk assessment process, OAS attempts to ensure that its audits cover major risk areas within the Department. Each year, team leaders are responsible for preparing and updating annual risk assessments for each Department site for which they are responsible. In addition, the AIG and DDs are responsible for preparing risk assessments for

the programs for which they are responsible. These programmatic risk assessments will consider the results of individual site risk assessments. All risk assessments, both for individual sites and for programs, are to be submitted to the DAPA by the end of March.

c.　　Audit Profiles. An audit profile is the document used in OAS to recommend and approve proposed audit work. See Exhibit A for the planned audit profile format and Exhibit B for instructions on preparing the profile. OAS auditors are encouraged to proactively develop audit leads and profiles throughout the year. Auditors will submit audit profiles to their respective team leader. Annually, the AIG and DDs will establish a due date for their team leaders to submit audit profiles for consideration for the audit plan. The AIG and DDs are responsible for submission of audit profiles to the DAPA by the end of June.

d.　　Annual Performance Plan. OAS's annual audit planning cycle culminates with the publication of the Annual Performance Plan. The DIGAS, DAPA, AIG, and DDs will prioritize proposed audits based on risk assessments and other planning factors. Audit profiles will be approved and included in the Plan based on their priority ranking and the availability of audit staff days. The DAPA is responsible for publishing the Plan.   The Plan will be finalized by September 30, published, and made available to OMB, GAO, and other interested parties.

e.　　Changes to Published Annual Performance Plan. Additions to the published Annual Performance Plan are accomplished by submitting new audit profiles to the DAPA for approval through the AIG and DDs. New audit profile must be accompanied by written justification that ties the proposed audit to the applicable programmatic risk assessment and identifies any audit(s) in the Annual Performance Plan that will be cancelled in order to provide resources for the new audit. Audits in the Plan can be terminated or cancelled at the discretion of the AIG; however, the AIG should notify the DAPA concerning such actions.

f.　　Planning Documentation. The DAPA is responsible for assigning audit project numbers and adding planned audits to EIGPT. A copy of approved profiles will be returned to the office that will be responsible for conducting the audit. The DAPA will retain copies of risk assessments and original signed profiles for all approved audits for the current fiscal year and the two preceding fiscal years. The DAPA is responsible for modifying the Annual Performance Plan and updating EIGPT, when audits are added, terminated, or cancelled

2.　　Planning Factors. Numerous factors contribute to OAS's audit planning. Factors include Congressional and OMB requirements, the Department's budget, and program and policy issues. These factors are regularly addressed as part of the annual planning cycle. In addition, planning is conducted within the context of long-term planning and considers the following factors:

a.　　Presidential and Secretary of Energy Initiatives. OAS's planning will address key areas for which the President or the Secretary of Energy has established initiatives, goals, or strategic plans. For example, Presidential initiatives can challenge all federal agencies to become more efficient, more

effective, more results-oriented, and more accountable to the taxpayers and those who benefit from the programs and services the government provides. Secretary of Energy initiatives can be roadmaps to address major issues facing the Department such as energy, environmental, and nuclear security challenges.

b.　　Management Challenges. OAS annually identifies the most significant management challenge areas at the Department and plans audits to provide reasonably comprehensive audit coverage in these areas. In addition, OAS annually develops a watch list that consists of management issues that do not meet the threshold of major management challenges, yet warrant continued attention by senior Department management. Watch list issues may include management challenges identified in previous years for which the Department has implemented corrective actions or has achieved positive outcomes. The watch list may also include emerging issues that require Department action.

c.　　Goals and Objectives. The DAPA is responsible for developing goals and objectives with input from all OAS organizations. These goals and objectives identify a broad framework within which OAS can (i) evaluate the economy, efficiency, and effectiveness of Department programs and operations; (ii) emphasize work in the management challenge areas; (iii) detect and deter fraud and abuse by ensuring that proper internal controls are established and maintained; and (iv) identify, obtain, and administer sufficient audit resources to carry out an efficient and effective OIG program of audits.

d.　　Risk Assessment Results. Overall risk rating categories of low, medium, or high are assigned to major auditable entities based on annually updated risk assessments. In assessing risk, consideration is given to such factors as (1) adequacy of internal controls; (2) major projects/new initiatives; (3) dollar value/materiality; (4) system changes; and (5) prior audit results.

C.　　*IDENTIFYING AUDIT IDEAS AND NEEDS*

The focus of the planning process is to maximize available audit resources in order to meet statutory requirements for audits and to provide coverage to high-risk areas. Planned audits in the Annual Performance Plan come from a variety of sources, all of which play an important role in determining which audits will be performed and the benefit to be achieved.

1.　　Recurring Audit Requirements. Certain audits are performed to meet statutory and regulatory requirements and OAS commitments. These requirements may originate from such sources as Congress, OMB, GAO, or the terms of the Department's contracts. The AIG and DDs are responsible for ensuring that these requirements have been identified and reflected in the Annual Performance Plan. Recurring audit requirements include:

a.　　Annual Financial Statement Audit. The Government Management Reform Act of 1994 and subsequent legislation require an audit of the Department's consolidated financial statements. The financial statement audit is to be conducted in accordance with GAGAS by the OIG or by an independent

external auditor, as determined by the OIG. See Chapter 12 for details of the financial statement audit.

b.   Evaluation of Unclassified Cyber Security Program. The Federal Information Systems Management Act of 2002 requires an annual evaluation and report on the Department's unclassified cyber security program.

c.   Federal Managers' Financial Integrity Act. Under the Federal Managers' Financial Integrity Act, the OIG is required to review assurance letters prepared by all Department elements and express views as to the status of internal controls or material weaknesses within the Department.

d.   Audits of Management and Operating Contractors. The OIG is the cognizant (responsible) audit agency for the Department's management and operating contractors. Generally, these cost-reimbursement contracts are pre-financed by the Department and are required to maintain a separate and distinct system of accounts, records, documents and other evidence showing and supporting all allowable costs incurred, revenues or other applicable credits. At the end of each fiscal year, these contractors submit to the Department a Statement of Costs Incurred and Claimed (SCIC) that includes the contractor's certification that the costs claimed represent allowable contract costs. These contracts require that the contractor's internal audit function conduct annual audits of the allowability of the costs claimed. OAS fulfills its cognizant audit responsibility by performing audits to ensure that the allowable costs audits were performed by internal audit organizations and to ensure that questioned costs and identified control weaknesses have been adequately addressed and resolved. These OAS audits are conducted annually for the ten contractors with largest annual amount of claimed costs and at least every four years for all other management and operating contractors. See Chapter 15 for further discussion and OAS's policies and procedures related to audits of SCICs and management and operating contractors.

e.   Contract Audits. For the Department's non-management and operating contracts, DCAA is normally responsible for performing pre-award and cost incurred audits (contract audits). However, on rare occasions, the OIG may be called upon to provide contract audit assistance related to allowable costs or other contract cost issues or to audit other recipients of Department funds such as grantees. See Chapter 13 for discussion of contract audits.

f.   Circular A-133 Audits. The Single Audit Act and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires certain entities receiving federal funds, such as educational institutions, state and local governments, and nonprofit organizations, to have a single or program-specific audit (single audit) conducted. Generally, for entities for which the Department provides the predominant amount of funds, the OIG can be assigned responsibility to be the cognizant agency for audit or the oversight agency for audit. For these entities, the OIG's responsibilities can include periodic reviews and reports on the adequacy of single audits. Circular A-133 contains detailed

requirements and guidance on single audits and the responsibilities of a cognizant agency for audit and an oversight agency for audit.

2.   Self-Initiated Audits. Many audit proposals are developed by auditors in the field who have observed potential issues concerning programs, activities, or operations of the Department, its contractors, or other recipients of government funds. Examples include: weaknesses in internal controls; susceptibility to fraud, waste, or abuse; new procedures or changed conditions; and, inefficient or uneconomical operations. Other ideas result from more formalized planning surveys of high-risk areas, identified in the risk assessment process. In some cases, the DIGAS will designate general subject areas for extensive survey work. These surveys are used to obtain information about particular subject areas and to develop strategies for further audit work. Timeframes and reporting objectives for these planning surveys will be determined on a case-by-case basis. In addition, the AIG or DDs can authorize up to two weeks of survey work to develop audit ideas without establishing a separate job code or reporting requirement. As described above, all self-initiated audits are to be documented and submitted as audit profiles.

3.   Requests for Audit Services. From time to time, OAS receives requests or suggestions from the Department to conduct audits of Department activities, contractors, or other recipients of Department funds. The AIG and DDs will acknowledge such requests and prioritize them in relation to all other planned audits to determine whether conducting the audit will be an effective and appropriate use of OAS resources. As described above, DCAA is responsible for conducting contract pre-award and cost-incurred audits for non-management and operating contractors. The AIG and DDs should advise requesters to send such contract audit requests directly to DCAA.

4.   Cross-Servicing. To conserve staff resources, promote efficiency, and reduce the impact of audits on the operations of the Department and its contractors, the DIGAS may establish cross-servicing arrangements under which one Federal agency will perform or oversee audits for all agencies at a contractor. Such arrangements will be made when it is in the best interest of the Department and the Federal government.

5.   Referrals or Requests for Assistance from Investigations and Inspections. OAS occasionally receives referrals or requests for audit assistance from the AIG for Investigations or the AIG for Inspections and Special Inquiries (Inspections). The OAS AIG or DDs may accept referrals or requests for audit assistance if workload priority allows and prior approval is granted by the DIGAS. Referrals and requests must be in writing with a copy sent to the DIGAS. Verbal referrals and requests will not be accepted. Once the DIGAS has approved the referral or request, the AIG or DDs should respond to the Office of Investigations or the Office of Inspections.

6.   Contract Transition and Closeout. Whenever there is a change in the M&O contractor at a Department facility, the responsible audit group will need to consider in its planning whether to conduct a review of the adequacy of contract transition activities. The audit group should perform a preliminary analysis to evaluate risk factors relevant to transition activities such as contract value, transition costs, special contract clauses, and the contract environment at the site.   If the preliminary risk analysis shows that the

Department has an overall low to medium risk associated with the contract changeover then the team leader should prepare a memo to the file to document that an audit will not be performed. If there is a greater than acceptable risk (medium high to high) to the Department, the audit group should submit an audit profile for a performance audit covering contract transition.   The objectives of the proposed transition audit would reflect the significant risks identified in the risk assessment, such as allowability of contract closeout and/or transition costs and adequacy of management of transition activities.

Project Number: _____
Assigned Audit Group: _____

PLANNED AUDIT PROFILE

DATE: _____   PREPARER: _____

1.   AUDIT TITLE: _____

2.   BACKGROUND:

3.   AUDIT OBJECTIVE: To determine whether

4.   SCOPE AND METHODOLOGY:

5.   POTENTIAL FINDING: (Asserted condition, cause, effect)

      Condition:

      Cause:

      Effect:

6.   PROGRAMATIC RISK RANKING: HIGH ___   MEDIUM ___   LOW ___

7.   JUSTIFICATION FOR AUDIT: (requires narrative explanation)

8.   <u>DOE MANAGEMENT CHALLENGE AREA</u>:

9.   <u>PRESIDENT'S MANAGEMENT AGENDA AREA</u>:

10. <u>OBAMA-BIDEN NEW ENERGY FOR AMERICA PLAN AREA</u>:

11. <u>GAO HIGH-RISK AREA</u>:

12. <u>ECONOMY & EFFICIENCY AND/OR MEASUREABLE MONETARY ACCOMPLISHMENTS</u>:
     YES ___   NO____

13. <u>DOE STRATEGIC THEME AND RELATED GOAL</u>:

14. <u>SECRETARY'S PRIORITY/INITIATIVE</u>:

15. <u>FOLLOW-UP AUDIT</u>:   YES ___   NO____
     (If yes, identify prior audit reports):

16. <u>TECHNICAL ASSISTANCE REQUIRED</u>:   YES _____ NO _____
      (Description of Required Assistance :)

17. <u>CLASSIFICATION OF AUDIT</u>:   Performance ___   Financial ___   Other ___

18   <u>PROGRAM CODE</u>:   _____

19   <u>FUNCTIONAL AREA</u>:   _____

20. <u>LOCATION CODE(s)</u>:   _____

21. <u>APPROVALS</u>:

     AIG   _____   Date   _____

     Director, APA   _____   Date   _____

INSTRUCTIONS FOR PREPARING THE PLANNED AUDIT PROFILE

1.   Project Number.   The Director, Audit Planning and Administration will assign the project number after all profiles have been approved for inclusion in the audit plan.

2.   Assigned Audit Group.   The audit group that will conduct the audit. At times, the group assigned to conduct the audit or review is different than the group that submitted the profile resulting from senior management meetings, staffing constraints, and other priorities.

3.   Preparer.   Include both the auditor(s) names and audit group(s).

4.   Audit Title.   Enter the audit title.

5.   Background.   Briefly describe the condition or situation that requires audit. This discussion may include reference to previous audit work in the same area, or any other applicable information that will enable Office of Audit Services management to make a determination as to whether to include this proposed audit in the annual work plan.

6.   Audit Objective.   Enter a worded question that the audit is to answer. The audit objective should clearly articulate what the audit is to accomplish. The auditor should bear in mind that the objective will have a significant impact on the amount of testing for compliance with laws and regulations, and internal controls that is required.

7.   Scope & Methodology.   This section should discuss the scope of coverage and include a brief description of the methodology for answering the audit objective.

8.   Potential Finding(s).   The preparer should, as a minimum, describe the asserted condition and applicable criteria in as much detail as possible.

9.   Programmatic Risk Ranking. Each proposed audit will be assigned a risk ranking of *"High, Medium, or Low"* based on the Division's annual programmatic risk assessment prepared for the current audit planning cycle. The overall programmatic risk assessment should be based on the individual site risk assessments prepared by various Team Leaders at all major Department locations and activities that include examining such factors as site programs and major projects, new initiatives, sufficiency of recent audit coverage, and adequacy of internal controls. The results of these assessments should form the basis for all planned audits.

10.   Justification for Audit.   Briefly explain why this audit is being proposed.

11.   Management Challenge Area. Identify which management challenge area identified in the current year's Management Challenges Report to which the audit relates.

12.   President's Management Initiative. Identify which President's Management Initiative to which the audit relates.

13.   Obama-Biden New Energy for American Plan. Identify which objective from the Obama-Biden New Energy for America Plan to which the audit relates.

14.   GAO High-Risk Area. Identify which objective from the GAO High-Risk areas to which the audit relates.

15.   Economy & Efficiency and/or Measureable Monetary Accomplishments. Indicate whether economy & efficiency and/or measurable monetary accomplishments will be identified.

16.   Secretary's Priority/Initiative. Identify which Secretary Priority and/or Initiative to which the audit relates.

17.   Follow-Up Audit.   Indicate whether this is a follow-up audit. If so, identify the prior audit by report number, title and date issued.

18.   Technical Assistance Required. Indicate whether the audit may require the use of advanced audit techniques. If so, briefly describe the techniques to be employed and needed assistance (if any). Should assistance be required, provide an estimate of duration in staff days.

19.   Classification of Audit/Review. Place an "X" after either performance, financial or other.

20.   Program Code: Enter the appropriate program code from the following list.

PROGRAM	CODE	PROGRAM	CODE
OFFICE OF THE SECRETARY OF ENERGY ADVISORY BOARD	AB	LEGACY MANAGEMENT	LM
BONNEVILLE POWER ADMINISTRATION	BP	OFFICE OF MANAGEMENT	MA
CHIEF FINANCIAL OFFICER	CF	NATIONAL NUCLEAR SECURITY ADMINISTRATION	NA
CONGRESSIONAL & INTERGOVERNMENTAL AFFAIRS	CI	NUCLEAR ENERGY	NE
OFFICE OF THE DEPUTY SECRETARY	DS	OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY	OE
ECONOMIC IMPACT & DIVERSITY	ED	PUBLIC AFFAIRS	PA
ENERGY EFFICIENCY & RENEWABLE ENERGY	EE	POLICY AND INTERNATIONAL AFFAIRS	PI
ENERGY INFORMATION ADMINISTRATION	EI	FEDERAL ENERGY REGULATORY COMMISSION	RC
ENVIRONMENTAL MANAGEMENT	EM	WESTERN AREA POWER ADMINISTRATION	RP
FOSSIL ENERGY	FE	CIVILIAN RADIOACTIVE WASTE MANAGEMENT	RW
OFFICE OF GENERAL COUNSEL	GC	OFFICE OF THE SECRETARY	S
HEARINGS AND APPEALS	HG	SCIENCE	SC
HUMAN CAPITAL MANAGEMENT	HR	SOUTHEASTERN POWER ADMINISTRATION	SE
HEALTH, SAFETY AND SECURITY	HS	SOUTHWESTERN POWER ADMINISTRATION	SW
INTELLIGENCE AND COUNTERINTELLIGENCE	IN	OFFICE OF THE UNDER SECRETARY	US
CHIEF INFORMATION OFFICER	IM		

21.   Functional Area.   Enter the applicable functional area from the following list.

CODE	FUNCTIONAL AREA	CODE	FUNCTIONAL AREA
001	Budget & Finance	011	Contract/Grant Administration
002	Procurement	012	Research & Development
003	ADP/Information Management	013	Project Management
004	Property/Inventory Management	014	Technology Transfer
005	Safeguards and Security	015	Facilities Management
006	Labor Relations/Human Capital	016	Intelligence/Counterintelligence
007	Quality Assurance	017	Economic Impact & Diversity
008	Waste Management	018	Weapons-Related
009	Environment, Safety & Health	019	Other
010	Administrative Services		

22.   Location Code.   Enter the location code to be audited from the following list. Enter all codes that are included in the scope of the audit.

CODE	FACILITY	LOCATION
AGO	ARGONNE SITE OFFICE	Chicago, IL
ALS	ADVANCED LIGHT SOURCE-APS at LAWRENCE BERKELEY (BES) *(user facility)*	Berkeley, CA
ALO	NNSA SERVICE CENTER (Old Albuquerque Operations Office)	Albuquerque, NM
AMI	AMCHITKA ISLAND	Amchitka, AK
AML	AMES NATIONAL LABORATORY	Ames, IA
AMS	AMES SITE OFFICE	Argonne, IL
ANL	ARGONNE NATIONAL LABORATORY (EAST)	Argonne, IL
ANW	ARGONNE NATIONAL LABORATORY (WEST)	Idaho Falls, ID
APS	ADVANCED PHOTON SOURCE at ARGONNE (BES) *user facility*	Argonne, IL
ASH	ASHTABULA SITE	Ashtabula, OH
ASO	ATLANTA REGIONAL OFFICE	Atlanta, GA
ATN	ARGONNE TANDEM LINAC ACCELERATOR SYSTEMS-ATLAS (HENP) *user facility*	Argonne, IL
BAP	BETTIS ATOMIC POWER LABORATORY	West Mifflin, PA
BKS	BERKELEY SITE OFFICE	Berkeley, CA
BLA	BATES LINEAR ACCELERATOR LAB *user facility*	MA
BNL	BROOKHAVEN NATIONAL LABORATORY	Upton, NY
BNY	BROOKHAVEN SITE OFFICE	Upton, NY
BPA	BONNEVILLE POWER ADMINISTRATION	Portland, OR
BSM	BOSTON REGIONAL OFFICE (Old Boston Support Office)	Boston, MA
CAR	CARLSBAD FIELD OFFICE	Carlsbad, NM
CHO	INTEGRATED SERVICE CENTER (3/30/04) (OLD CHICAGO OPERATIONS OFFICE)	Argonne, IL
CNT	CENTRAL NEVADA TEST AREA	NV
COI	COLUMBUS AREA OFFICE	Columbus, OH
CRF	COMBUSTION RESEARCH FACILITY-CRF (BES) *user facility*	Sandia Labs, CA
CSO	MIDWEST REGIONAL OFFICE (Old Chicago Support Office)	Chicago, IL
DSC	DENVER REGIONAL OFFICE	Denver, CO
EMC	ELECTRON MICROSCOPY CENTER for MS RESEARCH at ARGONNE (BES) *user facility*	Argonne, IL
EMS	ENVIRONMENTAL MOLECULAR SCIENCES LAB - EMSL at PNNL (BER) *user facility*	Richland, WA

ETE	ENERGY TECHNOLOGY ENGINEERING CENTER	Canoga Park, CA
FER	FEDERAL ENERGY REGULATORY COMMISSION	Washington, DC
FLX	HIGH FLUX ISOTOPE REACTOR at OAK RIDGE NATIONAL LAB (BES) user facility	Oak Ridge, TN
FMP	FERNALD ENVIRONMENTAL MANAGEMENT PROJECT	Fernald, OH
FNL	FERMI NATIONAL ACCELERATOR LABORATORY	Batavia, IL
FSO	FERMI SITE OFFICE	Batavia, IL
GAD	GENERAL ATOMICS: DIII-D (FES) *user facility*	San Diego, CA
GBD	GAS BUGGY/GNOME COACH SITE	New Mexico
GFO	GOLDEN FIELD OFFICE	Golden, CO
GJC	GRAND JUNCTION PROJECT OFFICE	Grand Junction, CO
HBC	HEADQUARTERS, OFFICE OF HEARINGS AND APPEALS	Washington, DC
HCE	HEADQUARTERS, OFFICE CIVILIAN RADIOACTIVE WASTE MANAGEMENT	Washington, DC
HCF	HEADQUARTERS, CHIEF FINANCIAL OFFICER	Washington, DC
HCI	HEADQUARTERS, OFFICE OF CONGRESSIONAL & INTERGOVERNMENTAL AFFAIRS	Washington, DC
HCO	HEADQUARTERS, OFFICE OF CHIEF INFORMATION OFFICER (CIO)	Washington, DC
HCN	HEADQUARTERS, OFFICE OF COUNTERINTELLIGENCE	Washington, DC
HDN	HEADQUARTERS, OFFICE of DEPT'S REPRESENTATIVE to DEFENSE NUCLEAR FACILITIES SAFETY BOARD	Washington, DC
HDS	HEADQUARTERS, OFFICE OF DEPUTY SECRETARY	Washington, DC
HEB	HEADQUARTERS, OFFICE of SEC of ENERGY ADVISORY BOARD (Old DP Advisory Committee)	Washington, DC
HED	HEADQUARTERS, OFFICE OF ELECTRICITY DELIVERY AND ENERGY RELIABILITY	Washington, DC
HEE	HEADQUARTERS, OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY	Washington, DC
HEI	HEADQUARTERS, OFFICE OF ENERGY INFORMATION ADMINISTRATION	Washington, DC
HER	HEADQUARTERS, OFFICE OF SCIENCE	Washington, DC
HES	HEADQUARTERS, OFFICE of ENVIRONMENT, SAFETY, and HEALTH	Washington, DC
HEW	HEADQUARTERS, OFFICE of ENVIRONMENTAL MANAGEMENT	Washington, DC
HFE	HEADQUARTERS, OFFICE OF FOSSIL ENERGY	Washington, DC
HGC	HEADQUARTERS, OFFICE OF GENERAL COUNSEL	Washington, DC
HIA	HEADQUARTERS, OFC of ASSIST SECRETARY for POLICY and INTERNATIONAL AFFAIRS	Washington, DC
HHR	HEADQUARTERS, OFFICE OF HUMAN CAPITAL MANAGEMENT	Washington, DC
HII	HEADQUARTERS, OFFICE of INTELLIGENCE	Washington, DC
HLM	HEADQUARTERS, OFFICE OF LEGACY MANAGEMENT (Old Worker and Community Transition)	Washington, DC
HMI	HEADQUARTERS, OFFICE OF ECONOMIC IMPACT AND DIVERSITY	Washington, DC
HMT	HEADQUARTERS, OFFICE OF MANAGEMENT	Washington, DC
HNA	HEADQUARTERS, OFFICE of UNDER SEC for NUCLEAR SECURITY/ADMINISTRATOR for NNSA	Washington, DC
HNE	HEADQUARTERS, OFFICE of NUCLEAR ENERGY, SCIENCE and TECHNOLOGY	Washington, DC
HPA	HEADQUARTERS, OFFICE of PUBLIC AFFAIRS	Washington, DC

HQR	HEADQUARTERS, OFFICE OF SECRETARY OF ENERGY	Washington, DC
HSA	HEADQUARTERS, OFFICE OF SECURITY AND PERFORMANCE ASSURANCE	Washington, DC
HUS	HEADQUARTERS, OFFICE of UNDER SEC for ENERGY, SCIENCE, and ENVIRONMENT	Washington, DC
IDO	IDAHO OPERATIONS OFFICE	Idaho Falls, ID
INH	INHALATION TOXICOLOGY RESEARCH CENTER	Albuquerque, NM
INE	IDAHO NATIONAL LABORATORY (Old INEEL)	Idaho Falls, ID
IPN	INTENSE PULSED NEUTRON SOURCE at ARGONNE (BES) *user facility*	Argonne, IL
KAL	KNOLLS ATOMIC POWER LABORATORY	Kesselring, NY
KCA	KANSAS CITY SITE OFFICE (Old Kansas Area Office)	Kansas City, MO
KCP	KANSAS CITY PLANT	Kansas City, MO
KIO	SANDIA SITE OFFICE (OLD KIRTLAND AREA OFFICE)	Albuquerque, NM
KOR	EAST TENNESSEE TECHNOLOGY PARK - K25 (Old K-25 Plant)	Oak Ridge, TN
LAN	LOS ALAMOS NATIONAL LABORATORY	Los Alamos, NM
LAO	LOS ALAMOS SITE OFFICE (OLD LOS ALAMOS AREA OFFICE)	Los Alamos, NM
LBL	LAWRENCE BERKELEY NATIONAL LABORATORY	Berkeley, CA
LBN	NNSA LAWRENCE BERKELEY NATIONAL LABORATORY	Berkeley, CA
LEP	LEXINGTON PROJECT OFFICE (Portsmouth/Paducah Project Office)	Lexington, KY
LER	LABORATORY FOR ENERGY-RELATED HEALTH RESEARCH	UC-Davis, CA
LLN	LAWRENCE LIVERMORE NATIONAL LABORATORY	Livermore, CA
LNS	LOS ALAMOS NEUTRON SCIENCE CENTER- LANSCE (BES) *user facility*	Los Alamos, NM
LSO	LIVERMORE SITE OFFICE	Livermore, CA
MBS	MIAMISBURG SITE	Miamisburg, OH
MFM	MOUND PLANT	Fernald, OH
MOA	MOAB SITE	Moab, UT
MOF	MIXED OXIDE FUEL FABRICATION FACILITY	Aiken, SC
MPC	MATERIAL PREPARATION CENTER AT AMES (BES) user facility	Ames, IA
NBL	NEW BRUNSWICK LABORATORY	Argonne, IL
NCE	NATIONAL CENTER FOR ELECTRON MICROSCOPY AT BERKELEY (BES) *user facility*	Berkeley, CA
NEM	NATIONAL ENERGY TECHNOLOGY LABORATORY (Old METC and FETC-WV)	Morgantown, WV
NEP	NATIONAL ENERGY TECHNOLOGY LABORATORY (Old PETC and FETC-PA)	Pittsburgh, PA
NER	NAT ENERGY RESEARCH SCIENTIFIC COMPUTING (NERSC) CENTER (ASCR) *user facility*	Berkeley, CA
NIF	NATIONAL IGNITION FACILITY	Livermore, CA
NPN	NONPROLIFERATION and NATIONAL SECURITY INSTITUTE	Albuquerque, NM
NPT	NATIONAL PETROLEUM TECHNOLOGY OFFICE	Tulsa, OK
NPU	NAVAL PETROLEUM RESERVES - #2 CALIFORNIA	California
NPW	NAVAL PETROLEUM RESERVES - #3 WYOMING	Casper, WY
NSL	NATIONAL SYNCHROTRON LIGHT SOURCE AT BROOKHAVEN (BES) U.F.	Upton, NY
NSO	NEVADA SITE OFFICE	Las Vegas, NV
NST	NSTX at PRINCETON (FES) *user facility*	Princeton, NJ

NTS	NEVADA TEST SITE	Mercury, NV
NVO	NEVADA OPERATIONS OFFICE	Las Vegas, NV
OIS	OAK RIDGE INSTITUTE for SCIENCE and EDUCATION	Oak Ridge, TN
ORB	WELDON SPRING SITE OFFICE	MO
ORN	OAK RIDGE NATIONAL LABORATORY	Oak Ridge, TN
ORO	OAK RIDGE OPERATIONS OFFICE	Oak Ridge, TN
ORP	OFFICE of RIVER PROTECTION	Richland, WA
ORR	OAK RIDGE RESERVATION	Oak Ridge, TN
OHO	OHIO FIELD OFFICE	Springdale, OH
ORT	CEBAF at THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY-HENP *user facility*	Newport News, VA
OST	OFFICE of SCIENCE and TECHNICAL INFORMATION	Oak Ridge, TN
PDC	PIT DISASSEMBLY CONVERSION FACILITY	Aiken, SC
PGA	PADUCAH GASEOUS DIFFUSION PLANT	Paducah, KY
PGD	PORTSMOUTH GASEOUS DIFFUSION PLANT	Portsmouth, OH
PNL	PACIFIC NORTHWEST NATIONAL LABORATORY (BATTELLE MEM INST)	Richland, WA
PNO	PACIFIC NORTHWEST SITE OFFICE	Richland, WA
PNR	PITTSBURGH NAVAL REACTORS OFFICE	Pittsburgh, PA
PPA	PANTEX PLANT	Amarillo, TX
PPF	PINELLAS PLANT	Pinellas, FL
PPP	PRINCETON PLASMA PHYSICS LAB (PPPL) PRINCETON UNIVERSITY	Princeton, NJ
PRO	PHILADELPHIA REGIONAL OFFICE (Old Phila Support Office)	Philadelphia, PA
PRS	PRINCETON SITE OFFICE	Princeton, NJ
PXS	PANTEX SITE OFFICE (Old AMARILLO AREA OFFICE)	Amarillo, TX
RBL	RIO BLANCO/RULISON SITE *(Clean Up Sites)*	Rulison, CO
RFA	ROCKY FLATS FIELD OFFICE	Rocky Flats, CO
RFC	ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE (Old Rocky Flats Plant)	Rocky Flats, CO
RHI	RELATIVISTIC HEAVY ION COLLLIDER (RHIC) at BROOKHAVEN (HENP) *user facility*	Upton, NY
RLO	RICHLAND OPERATIONS OFFICE	Richland, WA
RMO	ROCKY MOUNTAIN OILFIELD TEST CENTER	Casper, WY
RSF	HANFORD SITE	Richland, WA
RSL	REMOTE SENSING LABORATORY (Off NTS Site)	Mercury, NV
SEI	NATIONAL RENEWABLE ENERGY LABORATORY	Denver, CO
SEO	SEATTLE REGIONAL OFFICE	Seattle, WA
SEP	SOUTHEASTERN POWER ADMINISTRATION	Elberton, GA
SHO	SHOAL SITE	NV
SLA	STANFORD LINEAR ACCELERATOR CENTER - STANFORD UNIVERSITY	Stanford, CA
SLH	STANFORD LINEAR ACCELERATOR CENTER -SLAC (HENP) *user facility*	Stanford, CA
SNL	SANDIA NATIONAL LABORATORIES	Albuquerque, NM
SNR	SCHENECTADY NAVAL REACTORS OFFICE	Schenectady, NY
SOC	STANFORD SITE OFFICE	Stanford, CA
SPL	SPALLATION NEUTRON SOURCE-SNS at OAK RIDGE NATIONAL LAB (BES) *user facility*	Oak Ridge, TN
SPP	SEPARATIONS PROCESS RESEARCH UNIT	Unknown
SPR	STRATEGIC PETROLEUM RESERVE PROJECT OFFICE	New Orleans, LA

SRN	SAVANNAH RIVER NATIONAL LABORATORY	Aiken, SC
SRO	SAVANNAH RIVER OPERATIONS OFFICE	Aiken, SC
SRS	SAVANNAH RIVER SITE OFFICE	Aiken, SC
SRT	SAVANNAH RIVER TECHNOLOGY CENTER	Aiken, SC
SSR	STANFORD SYNCHROTRON RADIATION LABORATORY-SSRL (HENP) *user facility*	Stanford, CA
STL	SPECIAL TECHNOLOGIES LAB	
SVS	SOUTH VALLEY SITE	
SWP	SOUTHWESTERN POWER ADMINISTRATION	KS
TFS	TRITIUM FACILITIES SAVANNAH RIVER SITE NNSA	Aiken, SC
TJN	THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY	Newport News, VA
TJO	THOMAS JEFFERSON SITE OFFICE	Newport News, VA
TVF	TEVATRON at FERMI (HENP) *user facility*	Batavia, IL
WAP	WESTERN AREA POWER ADMINISTRATION	Golden, CO
WET	WESTERN ENVIRONMENTAL TECHNOLOGY OFFICE	
WIP	WASTE ISOLATION PILOT PLANT	Carlsbad, NM
WVP	WEST VALLEY DEMONSTRATION PROJECT	West Valley, NY
YMP	YUCCA MOUNTAIN SITE OFFICE (Old Site Characterization Office)	Beatty, NV
YMS	YUCCA MOUNTAIN SITE	Beatty, NV
YOR	Y-12 NATIONAL SECURITY COMPLEX	Oak Ridge, TN
YSO	Y-12 SITE OFFICE	Oak Ridge, TN

23.   Approvals.   The AIG will sign all approved profiles prior to final submission to the Director, Audit Planning and Administration. The Director, Audit Planning & Administration will co-sign the profiles and assign project numbers. Copies of the approved/signed profiles will then be provided to the appropriate TL (audit group) and AD.

AUDIT LEAD SHEET

Preparer:

1. ORIGINAL _____   REVISED _____   DATE _____

2. <u>AUDIT TITLE</u>: _____

    _____

3. <u>SHORT TITLE</u>: _____

4. <u>RESPONSIBLE OFFICE & CODE</u>: _____

5. <u>BACKGROUND</u>:

6. <u>RISK RANKING</u>: HIGH   MEDIUM   LOW

7. <u>JUSTIFICATION FOR AUDIT</u>:

8. <u>MANAGEMENT CHALLENGE AREA</u>:

9. <u>PRESIDENT'S MANAGEMENT AGENDA AREA</u>:

10. <u>OBAMA-BIDEN NEW ENERGY FOR AMERICA PLAN AREA</u>:

11. <u>GAO HIGH RISK AREA</u>:

12. <u>ECONOMY & EFFICIENCY AND/OR MEASUREABLE MONETARY ACCOMPLISHMENTS</u>:

13. <u>DOE STRATEGIC THEME AND RELATED GOAL</u>:

14. <u>SECRETARY'S PRIORITY/INITIATIVE</u>:

15. <u>AUDIT OBJECTIVES</u>:

16. <u>AUDIT APPROACH</u>: (Scope and Methodology)

17. <u>POTENTIAL FINDING(S)</u>: (Asserted condition, criteria, cause, and effect.)

CHAPTER 6

AUDIT EVIDENCE AND DOCUMENTATION

A.   *SCOPE OF CHAPTER*

This chapter sets forth OAS policies and procedures for obtaining and assessing audit evidence and for preparing, reviewing, managing, and protecting audit documentation.

B.   *AUDIT EVIDENCE*

1.   Sufficient, Appropriate Evidence. In accordance with GAGAS, OAS auditors must obtain evidence that is both sufficient and appropriate to provide a reasonable basis for their findings and conclusions. The concept of sufficient, appropriate evidence is integral to an audit. Auditors, using their professional judgment, interpret the results of audit testing and evaluate whether the nature and extent of evidence obtained is sufficient and appropriate. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions.

2.   Types of Evidence. In collecting audit documentation, auditors should obtain the "best" evidence possible to support a finding or issue. Three types of evidence, in descending order of "strength," are:

a.   Physical Evidence. Evidence that is obtained by direct inspection or observation of activities, people, property, or events is called physical evidence. Such evidence can be documented by memoranda of observations, photographs, videos, drawings, charts, maps, or physical samples.

b.   Documentary Evidence. Information obtained in a form already existing, such as letters, accounting records, invoices, official correspondence, contracts, reports, spreadsheets, database extractions, electronically stored data, and management information on performance are characterized as documentary evidence. Electronic documentation is preferred and should be requested. If not available in electronic form, documentary evidence should be scanned and included in the TeamMate audit file.

c.   Testimonial Evidence. Statements received from others by inquiries, interviews, video and teleconferences, telephone conversations, questionnaires, and electronic mail constitute testimonial evidence.

3.   Assessment of Evidence. Once evidence has been gathered, auditors frequently use analytical processes, such as computations, comparisons, and rational analysis, to determine whether the evidence is sufficient and appropriate. This assessment is made in the context of the audit objective and the related findings and conclusions. For example, even though the auditors may have some reservations or doubts about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions. When assessing evidence, auditors should evaluate (1) the expected significance of the evidence to the audit objective, findings, and conclusions; (2) available corroborating evidence; and, (3) the level of audit risk. Steps to assess evidence may depend on the nature of the

evidence, how the evidence is used in the audit report, and the audit objective. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings and conclusions within the context of the audit objective.

a.   Appropriate Evidence. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objective. Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the audit objective and the issues being addressed. Validity refers to the extent to which evidence is based on sound reasoning or accurate information. Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

b.   Sufficient Evidence. Sufficiency is the auditor's judgment of the quantity of evidence needed to address the audit objectives and support findings and conclusions. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable. The greater the audit risk, the greater the quantity and quality of evidence that will be required. Stronger evidence may allow less evidence to be used. However, a large volume of evidence does not compensate for evidence lacking in relevance, validity, or reliability.

c.   Reliable Evidence. Auditors must ensure that the evidence is obtained from a reliable source and is accurate. In performing the overall assessment of evidence, the following factors should be considered:

- Original documents are generally more reliable than copies (e.g., a copy of a letter in a sender's file may not be the same as the letter actually sent).
- Evidence obtained from an independent source may provide greater assurance of reliability than that secured from the auditee.
- Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.
- Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
- Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under restrictive or intimidating conditions.
- Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

d.   Evidence Limitations. Evidence has limitations when there are doubts about its appropriateness, or its validity and reliability have not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Concerns about reliability of evidence can also result from errors

identified by auditors in their testing of the evidence. Auditors should not use inappropriate or unreliable evidence as support for findings and conclusions. For example, evidence should not be used when the evidence carries an unacceptable high risk that the evidence could lead to an incorrect or improper conclusion or the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions.

Certain remedies that auditors can consider when they identify limitations or uncertainties in evidence include:

- Seeking independent, corroborating evidence from other sources;
- Redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence;
- Presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions; and,
- Determining whether to report as a finding the limitations or uncertainties of available evidence including any related, significant internal control deficiencies.

C.   *AUDIT DOCUMENTATION*

According to GAGAS, auditors must prepare audit documentation related to the planning, conducting, and reporting for each audit. It is OAS policy that all audit documentation will be maintained in the electronic environment using TeamMate. The audit documentation file (traditionally called "workpapers") is the link between audit fieldwork and the report. Audit documentation is necessary to: 1) provide a systematic record of work performed; 2) assist staff members in summarizing audit results and preparing the audit report; and 3) provide a record of information and evidence supporting the findings, conclusions, and recommendations contained in a report. In addition, supervisors can evaluate audit documentation to determine audit progress and ensure that audit findings and conclusions are supported by sufficient, appropriate evidence. OAS policies and procedures for audit documentation are as follows:

1.   Basic Audit Documentation Requirements. It is OAS policy to prepare audit documentation in accordance with GAGAS, which state that auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the:

o   Nature, timing, extent, and results of audit procedures performed;

o   Audit evidence obtained and its source; and,

o   Conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

In addition, auditors shall exercise care to ensure that they prepare audit documentation that is complete and accurate, clear and understandable, and relevant.

a.   Complete and Accurate. Audit documentation should be complete and accurate to properly support findings, judgments, and conclusions and to demonstrate the nature and scope of the work conducted.

b.   Clear and Understandable. Audit documentation should contain sufficient information and be structured so that supplementary oral explanations are not necessary. Audit documentations should be clear, conciseness, and complete while minimizing excessive details.

c.   Relevant. Audit documentation should be restricted to matters that are relevant to the audit objective. Extraneous audit documentation should not be maintained.

2.   Electronic Audit Documentation. It is OAS policy that all audit documentation will be maintained in the TeamMate electronic environment.

a.   TeamMate. TeamMate is the standard for documenting all OAS audits. TeamMate provides a common platform for documenting, reviewing, storing, and sharing work during and after the audit. Auditors will use TeamMate to prepare the official audit documentation for each audit. The OAS "Protocol for TeamMate" will be followed for all audits.

If unusual circumstances disclose that TeamMate cannot be used, any exceptions to using TeamMate must be approved in advance by the DIGAS.

Hard copies of documents should not be retained. The auditor should attempt to obtain supporting documents in electronic form to store in TeamMate. Otherwise, the auditor will need to scan the documents or information into electronic form for storage in TeamMate. Information on computer disks and tapes can be electronically imported into Teammate.

b.   TeamMate Workpapers. In TeamMate, the procedure summaries, procedure steps, and supplemental documentation are the principal workpapers in the audit file. Procedure summaries serve as the audit program and contain the procedure steps (audit steps) that are to be completed. For each audit area, the procedure summary will contain procedure steps to address that audit area along with supplemental documentation, such as spreadsheets, auditee documents, and other source documents. Each procedure step contains a Purpose, Scope, Source, and Conclusion (PSSC), and if necessary a Results, as follows:

i.   Purpose. There should be a clear statement regarding the purpose of the workpaper with emphasis on what the auditor is attempting to determine ("to determine whether…"). The purpose should generally require the auditor to make a determination of facts rather than just obtaining or documenting information required by the audit program.

ii.   Scope. Time period covered, locations, or activities audited should be described along with a description of the work to be performed.

iii.   Source. The source of information should be specifically identified in sufficient detail that others can evaluate the source and trace the information back to that source. Include the source's name, title, location, and contact information,

such as email address and telephone number. In most cases, it is preferable to show both the originator of a document as well as the source from which the auditor obtained the information.

iv. <u>Conclusions</u>. The conclusion should directly address the purpose ("determined that…").

v. <u>Results</u>. In addition to PSSC, this section, as needed, will provide a detailed factual summary of the evidence and details of the auditor's analysis.

3.　　<u>Indexing/Cross-Indexing</u>. Workpaper indexing and cross-indexing are to be performed electronically. TeamMate will automatically assign an index number to each procedure summary, procedure step, and supplemental workpaper as they are added to the TeamMate audit file. Procedure summaries and procedure steps are not considered complete until cross-indexed. Cross-indexes should be created as soon as possible. This practice facilitates summarizing audit results, writing the report, and identifying and locating relevant material. AICs and TLs must ensure that workpapers prepared by staff members have been properly cross-indexed.

Normally, the auditor who prepares workpapers will also cross-index them to supporting documentation. In cross-indexing, auditors should try to anticipate how the audit documentation will be used to support a finding or conclusion. Most cross-indexes will normally be to a specific section or point in the supporting documentation. If cross-indexing to more than one supporting document or to more than one page in a document, additional TeamMate links are required. In addition, TeamMate includes a "legend" to explain the meaning of any tick marks or other symbols.

A supporting document, such as a copy of a contract or document provided by an auditee, is not considered a separate procedure step but must be cross-indexed to a procedure step. F Therefore, it is not necessary to include PSSC on the supporting document. However, at a minimum, the source of the document should either be included in the procedure step or identified on the document.

In general, all facts shown in workpapers, such as figures, amounts, dates, and titles, must show a source, be cross-indexed to identical facts in supporting documents, or have an adequate explanation of how the auditor determined a particular fact. A reviewer should not have to re-perform computations or obtain oral explanations to determine the source and validity of stated facts. Where multiple items of information are needed to support a particular finding or conclusion, the auditor should prepare an audit summary to tie together the evidence relating to a particular topic, with information on the summary cross-indexed to the supporting documents.

4.　　<u>Documenting Interviews, Communications and Oral Evidence</u>. The results of meetings, interviews, video and teleconferences, phone calls, and other communications should be carefully recorded in the TeamMate audit file. Meetings include liaison visits and entrance, exit, and interim conferences. All write-ups are to include the following information:

- Name, position, and office of individuals and official(s) interviewed and who were present;

- Names of the OAS staff members who participated;
- Date, time, and place of the meeting or communication;
- Purpose and nature of subjects discussed; and,
- Conclusion that answers the stated purpose.

Oral evidence should be verified. If information is particularly significant to an audit, the person interviewed should be asked to read an interview write-up, make any necessary changes, and initial or sign the write-up to show their concurrence. If the person interviewed refuses to sign the write-up, it is unlikely much reliance should be placed on their statements. When it is necessary to get critical or sensitive information from an interviewee, two auditors should attend the meeting, and both should electronically sign the interview write-up to show their agreement on its accuracy. If incorrect statements by agency officials are identified, the incorrect statements should be identified, such as by a TeamMate coaching note, and linked to the correct facts.

5. <u>Audit Summaries</u>. Where multiple items of information are needed to support a particular conclusion, the auditor should prepare an audit summary (or lead schedule) in TeamMate to tie together the evidence relating to a particular topic. The audit summary should assist the auditor in analyzing evidence, identifying additional work needed, and evaluating reporting approaches. As information is summarized, it is advisable to discuss potential findings and conclusions with the auditee to ensure that all pertinent facts have been obtained or that there is not another reasonable interpretation of data or issues. In addition to assisting auditors in verifying the facts obtained, these discussions will also assist in efforts to identify the causes of adverse conditions identified in the audit. Summaries can also provide potential recommendations to correct adverse conditions. In addition, the auditor may add comments to the summary for the benefit of supervisors and others, such as problems encountered, lessons learned, or adjustments that should be made for future audit work. All summaries will be included in the TeamMate audit file and cross-indexed to supporting documentation.

6. <u>Documenting Supervisory Review</u>. In accordance with fieldwork standards for supervision and audit documentation, OAS supervisors must document their reviews of the audit file. AICs will review the TeamMate audit file biweekly and will electronically sign off each workpaper prepared by staff members after staff members have signed it. AICs will also prepare a memorandum for the record when TLs, ADs, DDs, or the AIG holds a job review that results in significant revisions to the audit objective, approach, or approved audit program. This memorandum should be provided to the respective supervisors for their concurrence and then retained in the TeamMate audit file. A checklist to assist in tracking documentation of major decisions and milestones during the audit is at Exhibit A, *Checklist For Job File Contents*, and must be included in the TeamMate audit file.

TLs and/or ADs are to review the TeamMate audit file monthly. TLs and ADs should document their review by signing off on each workpaper reviewed and/or by recording their comments using the TeamMate coaching note function. All coaching notes will be retained in the TeamMate audit file. TLs should ensure that all coaching notes have been responded to and outstanding issues resolved before the audit is completed. Differences of opinion between an auditor and a supervisor concerning audit-related issues will be

presented to higher-level supervisors to be resolved. Significant issues and their resolution will be documented in the TeamMate audit file.

Reviews by the AIC, TL, and AD need to be completed and documented before draft reports are referenced. (see the TeamMate Protocol for details of the referencing process.) Upon successful completion of supervisory review, the TL or AIC should prepare a workpaper indicating that the audit was performed in accordance with GASAS. (See Chapter 8, exhibit A for an example of the format for this workpaper.)

D. *MANAGEMENT AND PROTECTION OF AUDIT DOCUMENTATION*

Auditors should follow these policies and procedures for managing and protecting audit documentation:

1. Safeguarding Documentation During the Audit. Audit documentation is considered OIG property and will not be removed from OIG or auditee facilities without supervisory approval. Documentation will be safeguarded at all times to prevent improper disclosure or premature release of audit findings and other privileged, confidential, or sensitive information obtained during the audit, such as plans for future operations or procurement actions, information obtained to support fraud investigations, or special congressional requests. Auditors need to safeguard any sensitive data that has been entrusted to their care for evaluation or audit purposes. As noted in DOE M 471.3-1, such data is considered to be "for official use only" and must be protected accordingly.

Documents that include Personally Identifiable Information (PII), Official Use Only (OUO), and Unclassified Controlled Nuclear Information (UCNI) can be stored in TeamMate because it incorporates adequate encryption and password protection safeguards.   If a supporting document or audit step contains PII, OUO, or UCNI, the auditor **MUST** include "PII", "OUO", or "UCNI" in its title. All PII, OUO, and UCNI not in TeamMate that is on laptop computers or any other form of portable media (thumb drive, CD, or other disk) must be encrypted using Entrust prior to being transported outside the physical boundaries of the workplace. Auditors must also use care when transmitting sensitive information via electronic means. For example, items such as PII or information on cyber security vulnerabilities should not be transmitted by unsecured email. Auditors should also ensure that sensitive files are appropriately and completely removed from laptop computers when they are no longer needed. Simply deleting a file will not remove the entire file from the hard disk or from devices such as thumb drives or disks. For assistance, contact your local computer support teams to permanently delete a file.

2. Retention and Safeguards for TeamMate Audit Files. Auditors should use reasonable care in safeguarding audit documentation. To ensure that audit documentation for a completed audit is accessible, retrievable, and not altered, TeamMate audit files will be archived following the "TeamMate Protocol". According to the Protocol, the TeamMate audit file will be "finalized" and stored on CDs and a dedicated limited-access network drive. One CD will be stored in the OAS field office

responsible for the audit, a second CD will be stored at the responsible division office, and a third CD will be stored with the OAS TeamMate champion in the Germantown office. In addition, a copy of the finalized TeamMate audit file will be stored on a designated Headquarters network drive with access limited to the TeamMate champion located in the Germantown office and OAPA. The TeamMate audit files will be retained and disposed of in accordance with the OAS's approved Records Inventory and Disposition Schedules. Additional information about records management can be found in DOE Order 200.1, *Information Management Program*.

3.   Safeguarding Classified Audit Files.   Special safeguards should be used for storing and safeguarding classified information. Detailed instructions with respect to the handling, controlling, storing, and mailing classified information are contained in DOE Order 471.2A, *Information Security Program*, and in DOE Manual 471.2-1C, *Classified Matter Protection and Control Manual,* and in OIG Directive IG-908G, *Office of Inspector General Security*. All OAS personnel, including auditors and auditors under contract, must be familiar with and observe the procedures and controls established by these instructions for safeguarding all classified information that comes into their possession. For classified computer processing, OIG personnel will adhere to requirements of the classified computer security program at the host site, including all technical provisions of that program.

4.   Freedom of Information Act (FOIA) Requests. The OIG receives many requests for information under FOIA; occasionally, copies of audit documentation must be provided in response to such requests. Processing FOIA requests can require many hours to scrutinize the contents and write a formal response to the requester. Below are some specific considerations and procedures that auditors can follow to better assist the OIG in dealing with FOIA requests.

a.   Anticipate FOIA requests. In preparing the TeamMate audit file, auditors should ensure that all data, schedules, and analyses clearly identify the source and indicate whether the documents were provided or prepared by the auditee. Also, auditors should ensure that all PII, OUO, UCNI, contractor proprietary, sensitive, and Privacy Act (PA) information in the TeamMate audit file is clearly identified. In addition, non-essential information should not be included in TeamMate audit files. Once an FOIA request has been received, it is OIG policy that no records relating to the request will be destroyed.

b.   Processing FOIA Requests. FOIA requests will be processed in accordance with OIG Directive IG-902E, *Freedom of Information Act and Privacy Act Requests*. Within the OAS, the DIGAS is the "Authorizing and/or Denying Official" for issuing decisions concerning OAS records and audit documentation. In dealing with specific audit reports and audit documentation, the originating office will usually be tasked with assisting with the response in coordination with OAPA and the FOIA/PA Officer within the Office of Resource Management. Additional detailed procedures for processing FOIA requests are provided in OIG Directive IG-902E. According to IG-902E, all OIG employees who receive FOIA or PA requests directly will forward these requests to the FOIA/PA Officer.

5.   Permanent Files. Permanent files contain information of a continuing or recurring nature, which may be useful in succeeding assignments. These files serve as a database to assist in planning future work, as well as readily accessible summary information on work already performed and on reports issued. Examples include contract documents, laws, regulations, guidance, budget information, and copies of prior audit reports.   The AIG and DDs are responsible for establishing procedures for the maintenance, periodic review, and retention of permanent audit files. Material that is obsolete or no longer pertinent should be removed from the files and properly disposed. Permanent files can be in either hard copy or electronic form.

CHECKLIST FOR JOB FILE CONTENTS

Audit File for: _____

_____

Assignment No. _____   Report No. _____

		Check, if Completed	Date	W/P Reference
Audit Profile				
Notification Letter				
Survey Program (Indexed)				
Coordination w/OIG Investigations				
Coordination w/OIG Inspections				
Entrance Conference				
Work/Task Plan (for Contractor)				
End of Survey Decision Outline				
Audit Program				
Informal Discussions w/ Auditee				
Draft Outline				
Fieldwork Completed				
Segment Summaries:				
-- Compliance with Laws & Regs				
-- Internal Controls				
-- Risk Assessment				
-- Assessment of Data Reliability				
-- GPRA				
Indexed Draft Report				
Referenced Draft Report & Comments				
Pre-Draft Coordination Meeting				
Draft Report				
Transmittal Letter for Draft				
Monetary Impact Report				
Sensitive Information Checklist				
Classified/Controlled Information Checklist				
Management Response to Draft Report				
Management Comments Matrix				
Exit Conference				
Proposed Final Report				
Transmittal Letter-Proposed Final Report				
Report Changes Indexed & Referenced				
Referencer Certification Document				
Assistant Director Checklist				
Final Report Package				

Comments:

CHAPTER 7

ADVANCED AUDIT TECHNIQUES

A.   *SCOPE OF CHAPTER*

This chapter establishes policies and procedures for the OAS staff in the routine use of advanced audit techniques. Its purpose is to ensure that data obtained from computer-based systems is reliable and accurate, computer assisted audit techniques are used whenever possible, and advanced audit techniques are employed when appropriate.

B.   *AUDITING UTILIZING INFORMATION TECHNOLOGY*

To prepare objective and convincing audit reports, auditors must obtain sufficient and appropriate evidence to support findings and conclusions. This requires auditors to collectively possess adequate professional proficiency to be able to (1) audit organizations where information technology (IT) or computer operations are integral to the operations being evaluated and (2) use Computer-assisted audit techniques (CAATs) or other advanced techniques to collect and analyze audit evidence. Because the Department of Energy (Department) activities far exceed the resources available to the OAS, the staff is required to use available resources efficiently. Often, using CAATs or other advanced audit techniques may be the most economical and effective way to accomplish audit objectives.

> 1.   Developing Advanced Technical Capabilities. The Technology Audit Group (TAG) will assist audit teams in areas requiring technical expertise, to include helping auditors obtain the skills or abilities needed to review general or application computer controls, test data reliability, or to effectively use computer-assisted audit techniques. TAG can also help to ensure that the audit teams are aware of:
>
> - Prior OIG, GAO, or other audit or internal review coverage involving general and application controls or tests of data reliability that may satisfy audit objectives.
>
> - Known vulnerabilities, weaknesses, or risks involving common systems software or major applications such as the Department's financial management systems.
>
> - Appropriate criteria for reviewing general and application controls, such as relevant Department Orders or publications issued by GAO or the National Institute of Standards and Technology (NIST).
>
> 2.   Evaluating Computer Processed Data. If an auditee maintains and processes necessary audit information on computer systems, the OAS will achieve the most effective and efficient audit procedures through access to on-line, read-only capability to the audit data or to receive the information off-line in electronic form. The considerations for using such data are the same as data obtained through traditional non-IT sources. The data must be consistent, valid, and reliable. Accessing information on-line or in other electronic forms can have tremendous advantages by allowing tests to be performed on the data universe rather than restricting audit analysis to a limited sample. During the planning stage, auditors should consider whether each new or proposed audit

is a good candidate for direct access to computer data and/or the use of computer assisted audit techniques.

a.   <u>Accessing Existing Data</u>. Several options exist for the auditor to access existing data. An auditor can (i) obtain on-line access to the system or a copy of an existing underlying database, or (ii) arrange for the auditee to provide extracts of the necessary information. Each approach has advantages and disadvantages.

    (1)   <u>On-Line Access</u>. This method of obtaining data is the most desirable of all options. In most situations, it will afford the auditor the greatest degree of flexibility and should enhance audit effectiveness. Auditors will normally have to obtain permission from the custodian of the data, as well as the necessary account numbers and passwords to obtain on-line access to a system. However, auditors must ensure that they have the necessary skills to make efficient and effective use of this access. In addition, requested access should be limited to "read-only" to ensure that existing data is not compromised.

    (2)   <u>Obtaining a Copy of the Database</u>. Generally, obtaining data in an electronic format is more efficient than receiving data in paper form. Auditors obtaining database copies need to ensure that they (i) have access to hardware and software compatible with the form in which the data is received; (ii) can make efficient and effective use of the data; and (iii) can store the data in accordance with audit documentation retention guidelines.

    (3)   <u>Hard-Copy</u>. In some cases, the auditee may prefer to extract the necessary data from the system and to provide it in hard-copy form. This option is the least efficient of all methods for obtaining data and should be avoided when possible. Computer analysis of such data will require either re-keying the data or using Optical Character Recognition (OCR) scanners, both of which are labor-intensive. As with other approaches, the auditor needs to ensure that the data provided is a reliable and correct representation of the data in the system.

b.   <u>Reimbursement for Information Technology Services</u>. When relevant, auditors should not hesitate to obtain information from computer-based systems or to accept assistance from the auditee in obtaining such information. However, it is not OAS policy to reimburse auditees for their costs when such assistance is provided. OAS believes that an audit is an integral part of an organization's cost of doing business and, as such, resources required by auditors represent appropriate costs to the organization being audited.

c.   <u>Use of the Internet</u>. The Internet is an extremely valuable audit and information gathering tool. Data formerly available only through exhaustive manual searches or from expensive on-line research services is now instantly available. In addition to information available through the use of search engines and other data mining tools, a number of the Department's databases and applications are available on-line. For example, the Procurement Acquisition Database System (PADS) and the Corporate Human Resource Information System (CHRIS) have migrated to Web-based systems. In addition, the I-

MANAGE Data Warehouse (IDW), which contains critical information from multiple corporate systems such as human resources, payroll, procurement, and financial management, is Web-based. Most directives and Department publications are also available from various websites sponsored by Department programs.

Auditors should consider using the Internet in all situations where the appropriate level of data validation can be performed. As with all other audit evidence, the level of validation necessary is directly related to the use of the data. Information used as background or for supplemental purposes requires less validation than evidence considered critical to an audit finding. While validation or confirmatory procedures must be performed on such information, they should not rise to the level described under "Assessing Data Reliability" below. Information obtained from on-line systems such as PADS and CHRIS differs from other archival type information available on the Internet. In these situations, the Internet is merely used to facilitate access to Department databases. If information gathered from such sources is considered to be an integral part of the audit, the reliability of the data must be assessed.

C. *ASSESSING DATA RELIABILITY*

When information from computer-based systems is part of an audit, the reliability of that data becomes crucial in achieving audit objectives. In such instances, auditors should assess the sufficiency and appropriateness of computer-processed information, regardless of whether the data are (i) extracted independently by the auditor or (ii) provided to the auditor. The nature, timing, and extent of audit procedures involved in making this assessment depends heavily on the auditee's information systems controls and the significance of the information in fulfilling the audit objective. In addition, auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives. As a result of these considerations, data reliability testing procedures may be either limited or extensive.

Auditors should determine if officials of the audited entity or other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If the results of such work are current, auditors may be able to rely on that work. Auditors are responsible for (1) conducting tests and procedures to ensure the reliability of the data being used; and/or, (2) reviewing general and application controls. In addition to the guidance below, the GAO publication *Assessing the Reliability of Computer-Processed Data* can be helpful in designing a methodology for assessing data reliability.

1. Determining When to Assess Reliability of Data. For each assignment, the AIC will determine the significance of data from information systems in developing the audit results. In making this determination, the auditor should consider the following factors:

- The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems;

- The availability of evidence outside the information system to support the audit's findings and conclusions; and,

- The relationship of information systems controls to data reliability and the audit objective.

If the data is considered critical, then the audit team performing the test work is responsible for ensuring the reliability of computer-processed data used during the audit. However, if the information is not critical to the audit results, then citing the source of the information and stating that it was not verified will usually satisfy the accuracy and completeness reporting standards.

2. <u>Testing for Data Reliability</u>. If audits of general and application controls have been performed recently, auditors may be able to cite them as a basis for relying on data from computer-based systems. However, if such controls have changed substantially, have not been reviewed or have been found to be unreliable, the audit staff should determine the validity and reliability of computer-processed data through direct tests of the data to assure that the information that they desire to use is reliable, current, and consistent with its intended use. Such testing could include:

- Verifying that computer processing is accurate and complete, such as testing a formula used in specific data elements or processing sample transactions through the system.

- Tracing selected information in the system to source documents or performing physical counts or inspections.

- Confirming the accuracy and integrity of data in the system by interviewing sources independent of the auditee, i.e., third parties such as regular users or suppliers of data from the application.

- Reviewing the auditee's own test procedures and results and determining whether there are limitations on how the information can be used to correct control weaknesses.

Keep in mind that you are not attesting to the overall reliability of the data or database. You are only determining the reliability of the data as needed to support the findings, conclusions, or recommendations of the engagement.

D.   *ASSESSING INFORMATION SYSTEM CONTROLS*.

Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions.

The audit work should include an appropriate examination of the system's internal controls that includes evaluating the system's design and operating effectiveness and testing of general and application controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives. Auditors should also identify and test general and applications controls that are critical to providing assurance over the reliability of the information required for the audit.

1.   General Controls. General controls are the policies, procedures, and practices that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems and help provide reasonable assurance that specific objectives will be achieved. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning. The reviews should seek to determine whether the controls have been designed according to management direction, and are operating effectively to provide reliability of, and security over, the data being processed.

2.   Application Controls. Application controls are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master data, application interfaces, and data management system interfaces.   Many application controls operate only at the application level – for example, controls that enhance the integrity of information, such as edit checks that ensure a valid date or an appropriate numerical sequence or that identify missing documents. In addition, application controls can include the automation of control processes, such as the matching of purchase orders with receipt records and invoices. Specific controls that should be addressed include those for:

- Ensuring that only authorized data is input, and that it is processed promptly, accurately, and completely;

- Protecting the integrity of the application software, to include ensuring that the software and later modifications are authorized and tested before implementation; and,

- Ensuring the integrity of output, whether in a batch mode or on-line and the correct and timely distribution of outputs produced.

Auditors can reduce the direct tests of data if they test the effectiveness of general and application controls over computer-processed data and these tests support the conclusion that the controls are effective. If auditors determine that internal controls over data that are significantly dependent upon computerized information systems are not effective or if auditors do not plan to test the effectiveness of such controls, auditors should include audit documentation regarding the basis for that conclusion by addressing (1) the reasons why the design or operation of the controls is ineffective; or, (2) the reasons why it is inefficient to test the controls. In such circumstances, auditors should also document their reasons for concluding that the planned audit procedures, such as direct tests of the data, are effectively designed to achieve specific audit objectives.

The results of such tests should be documented in the audit documentation accompanied by flow charts or narratives identifying system controls over the data. Conclusions reached should be cross-indexed to the audit program and final report. If such testing is not performed or if data reliability cannot be established,

auditors may need to adjust their audit program or qualify the audit report accordingly.

E.   *STANDARDIZED DATA COLLECTION TECHNIQUES*

On some audits, it is necessary to collect data from multiple sources in a standardized format in order for audit objectives to be achieved. However, such data collection can be costly, time consuming, and subject to constraints. Auditors should ensure that they do not request information that is readily obtained from Internet or literature searches, unstructured interviews, agency files, or contractor reports, and that they minimize the burden on respondents asked to furnish information.

1.   Types of Data Collection Instruments. The major types of data collection instruments are "pro forma" workpapers, structured interviews, telephone interviews, and mail questionnaires. Pro forma workpapers are generally used when reviewing and recording information in a standardized format from an auditee's files or from records maintained by persons or organizations affected by a Departmental program. Structured interviews involve the scheduling of face-to-face interviews in order to obtain an understanding of processes used and responses to a questionnaire or a structured interview form. Because this approach can be costly and time consuming, auditors need to be sure they have justified such methodology before it is adopted. Telephone interviews are a special form of a structured interview. Although they are relatively quick and inexpensive, auditors need to ensure that they can justify the time required of respondents. Questionnaires are considered an inexpensive method for collecting information on a wide scale. Considerable time can be expended in preparing and testing questionnaires; therefore, their use should be warranted.

2.   Approval Procedures. In some cases, data collection instruments could be subject to Department or Office of Management and Budget approval procedures, particularly if information is collected from contractors or financial assistance recipients. Therefore, questionnaires or structured interview forms must be submitted to and approved by the responsible Assistant Inspector General (AIG) if they will involve 10 or more private citizens, private firms, or local governments; 5 or more State governments; and 25 or more officials or employees of the Department or other Federal agencies. The AIG will be responsible for determining the coordination, if any, required with the Department. Data collection instruments that will be used one time and are not considered to be information collection or interagency forms do not require approval or form numbers. Nevertheless, Auditors-in-Charge shall ensure that there is a legitimate need for the instrument before it is used.

3.   Planning and Testing an Approach. Effective use of questionnaires or structured interview forms requires that the instruments be tested. Auditors have to determine which type of collection instrument to use and to ensure that the questions to be asked will elicit the appropriate response.

4.   Data Collection and Analysis. After the information is received from respondents, it has to be tabulated and analyzed in terms of the audit objective. Auditors need to determine in advance how they will transfer information from questionnaires to spreadsheets or databases, the response rates required for valid data, and how to deal with invalid responses.

F. *SAMPLING TECHNIQUES*

Sampling is a process of examining or measuring a smaller group of items (a "sample"), in order to draw conclusions and make generalizations about a larger group of items (a "universe" or "population"). To make valid conclusions and generalizations about a universe, a sample must be selected from and be representative of that universe.

1. Sampling Methodologies. An auditor must select a particular sampling methodology, such as simple (unrestricted) or stratified sampling, appropriate testing process and accounts. The principle selected depends on several factors, including characteristics of the universe and the type of testing to be performed. After testing procedures have been completed, the results of the sample can be used to draw conclusions about the universe. Common sampling methodologies include:

a. Attribute Sampling. Attribute sampling is a procedure in which selected units are evaluated for the existence of particular characteristics or inherent qualities (i.e., attributes). A statistical measure is then computed to estimate the proportion of the population with the attribute.

b. Cluster Sample. Cluster sampling is a procedure in which groups of items, rather than individual items, are selected for testing. For example, the universe may consist of contracts, but the sample will consist of all contracts handled by selected contract offices.

c. Discovery Sample. Discovery sampling is a procedure used to test for the existence of sampling units with a particular characteristic. If the sample turns up items with that characteristic, the auditor will know that the error rate exceeds a tolerable rate, and the audit can be adjusted accordingly. If such items are not found, the auditor can make a probability statement that the rate of occurrence is less than the specified tolerable rate.

d. Judgment Sample. Judgment or non-statistical samples are based on the auditor's knowledge or judgment about the characteristics of a population rather than on statistical sampling concepts. Such samples can be useful in conducting audit work, particularly as a means of increasing the auditor's knowledge about certain portions of a universe. The results from this methodology can not be projected to the intended universe. For example, auditors may deliberately select cases that represent the largest dollar amounts or potential for error. Judgment samples may be of value, but they must be used with care to avoid drawing invalid conclusions about the population from which the sample was drawn.

e. Multi-stage Sampling. Multi-stage sampling is conducted in stages, such as by first randomly sampling locations and then by randomly sampling items within each selected location.

f. Simple Random Sample. The simple random sampling method assumes that the population is homogeneous, is in one location, or can be sampled from a single frame if in several locations and that there is only moderate variation among the values of the items in the universe.

g.   Stratified Sample. Stratified sampling occurs when the universe is divided into two or more parts and a random sample is selected from each part. This type of sample might be chosen if the universe is divided up among several locations and it is not possible to develop a single sampling frame.

h.   Variable Sampling. A sample in which selected units are evaluated for values or characteristics (i.e., variables) that can be expressed either numerically or quantitatively, and that may vary from one observation to another.

2.   Sampling Terminologies: In addition, the auditor should be familiar with the following sampling terminology:

a.   Confidence Level. The confidence level is a measure (usually expressed as a percentage) of the degree of assurance that estimates (lower and upper confidence limits) enclose the population's true value.

b.   Population. The population consists of all the items in the group or universe being audited.

c.   Precision. The precision is a measure of the proximity of a sample estimate to the corresponding population characteristic.

d.   Sample Size. The sample size is the number of items to be tested from the universe. The appropriate sample size is determined based on several factors, such as the confidence level and the tolerable rate of error.

e.   Sampling Error. The sampling error is the difference between the value obtained from sampling and that which would have been obtained by examining every item in the population.

f.   Sampling Frame. The sampling frame is a listing of all the population elements from which the sample will be selected. It should permit the sampler to identify and locate all items drawn into the sample and to differentiate this item from all other items in the sampling frame. For example, if the universe has been defined as the civilian work force at a contractor facility, the list of workers from which the sample is drawn should include all civilian workers as of a specific date, should contain no duplicate entries, and should contain no entries not in the universe.

g.   Sampling Unit. The sampling unit is the individual element, or collection of elements, to be sampled. In a payroll audit, for example, the population could be defined as individual employees or pay periods (i.e., "logical" units), or as dollars (i.e., "numerical" units).

h.   Tolerable Error. The tolerable error is the specified precision or the maximum sampling error used that will permit the results to be useful.

3.   Determining a Sampling Approach. Auditors should design sampling methodologies to provide reasonable assurance that the results are sufficient to support the audit's findings and recommendations. The specific audit objective; availability of data

from which a sample is to be selected; and intended use of the sampling results will help the auditor to determine the most advantageous sampling approach.

a.   General Considerations. In general, there are no rigid rules as to the sampling approach that should be used on a particular audit. Rather, in developing a sampling approach that minimizes the amount of audit work, but that still gives useful results, the auditor needs to consider such factors as the following:

- Why is sampling necessary and how will it contribute to the overall audit objective? An important consideration to remember is that a sample is intended to be representative of a larger population. If auditors can efficiently review an entire population rather than a sample, they should normally do so. For example, an audit objective to determine if contract expenditures are allowable might be accomplished by 100 percent review if the contract data is available in electronic format. On the other hand, a judgment sample of the largest contract transactions might equally satisfy the audit objectives.

- How long will it take to evaluate each sampling unit? If 2 to 3 days are needed to review each sample item, a large sample size may not be feasible.

- What is the expected error rate or variance in the population and how does the expected error rate compare with the tolerable rate? If the auditor expects a 50 percent error rate, but has criteria to show that the rate should not exceed 1 percent, a large sample will not be needed to show that there is a problem. On the other hand, an expected 2 percent error rate and a tolerable 1 percent error rate will require a much larger sample.

- How precise does the auditor need to be in determining individual amounts, and how confident does the auditor need to be in the final results taken as a whole? Greater precision and confidence will normally be needed to support a recommendation to recover $1 million than to support a recommendation that internal controls need to be improved.

b.   Preparing a Sampling Plan. In terms of planning and managing audits that involve statistical sampling, auditors should specifically address the characteristics listed below. This can be done by completing the sampling plan included as Exhibit A.

(1)   Objective. The objective describes the purpose to be achieved with the use of the sampling methodology and its contribution to the overall audit objective.

(2)   Audit Universe/Population. Auditors need to carefully identify the population from which a sample will be selected since sampling results will be affected by the reliability of the data from which the sample is drawn and how sampling items are defined.

(3)   Sample Size. In determining the size of sample, auditors should initially determine the needed precision and confidence levels. These levels, in turn, are dependent on the universe size, the types of analysis

planned, and the sampling method used. However, the process of determining sample size is not solely mechanical in nature; it also requires auditors to determine the tradeoff between the desire for greater precision and time constraints, effort, and costs associated with assessing a large sample. Some general rules that may help auditors determine the sample size include:

- In sampling for attributes, the auditor will normally have to select at least 30 items. Also, the definition of what constitutes an error and tolerable deviation rates should be determined before a sample is selected. For example, in a control review, the auditor should determine what constitutes a significant or material error, and how many deviations can occur before controls are deemed to be ineffective.

- In sampling for variables, the auditor should normally select a sample that will generate at least 15 to 20 error values. Thus, with an expected 5 percent error rate, a sample size of 300 to 400 items would be needed to generate the 15 to 20 error values necessary to accurately project dollar impact. On the other hand, a sample of 30 to 40 items would normally generate a reasonable projection if a 50 percent error rate were encountered.

- In selecting a stratified sample, at least 20 items should be selected in each stratum. If the number of items in a particular stratum is less than 20, all of the items should be reviewed. In order to project variables, the auditor should ensure that the sample size in each stratum is large enough to generate 8 to 10 errors. The total sample, i.e., all strata, should generate 15 to 20 errors in order for the auditor to ensure useable results.

(4)   Sample Selection. In order for a statistical sample to be used to make inferences about the universe, it must be based on the laws of probability. In most cases, random number sampling using computer-generated random numbers (utilizing an application such as Microsoft Excel, ACL, or Army Audit or DCAA software) is the preferred method of selecting a sample since every sampling unit has the same probability of being selected. This method will also provide the auditor the most flexibility in adjusting to unexpected error rates and expanding or decreasing the sample size, particularly if sample items are reviewed in the same order that the random numbers were generated. Random based methods such as sequential or haphazard are permissible. However, other methods of selecting sample items, such as systematic sampling, may result in a biased sample if the population is not arranged randomly.

(5)   Intended Use of Sample Results. The sampling plan should also include a discussion of how the sample results will be used.

c.   Analyzing and Using Sample Results. Auditors must use care in analyzing and presenting sample data. For example, if auditors selected samples consisting of 100 contract files at each of three audit sites, they might desire to present the combined results of their work. This could lead to inaccurate conclusions if the universe at each of the sites differs, such as 1,000 at one site, 5,000 at another, and 10,000 at the third. Combined results would be correct only if the sample results were weighted to reflect the differing number of contract files at each site.

d.   Documentation Requirements. If statistical sampling is used, auditors must ensure that audit documentation includes:

- the basis for sample selection;
- size of audit universe;
- sampling attributes such as error rates, sample interval, and confidence levels;
- results of the sample; and
- basis for projecting sample results.

If non-statistical sampling is used, audit documentation should include judgmental sample documentation such as the size of the universe. In addition, when sampling significantly supports audit findings, conclusions, or recommendations, the Scope and Methodology section of the audit report should include a description of the sample design and why the design was chosen and whether the results can be projected to the intended population.

SAMPLING PLAN OUTLINE

AUDIT TITLE:_____

DATE PREPARED: _____AUDIT NO. _____

PREPARED BY: _____PHONE NO. _____

A. <u>OBJECTIVES</u>. Describe overall audit objective, as well as specific sampling objectives and other information needed to understand the audit approach.

B. <u>AUDIT UNIVERSE/POPULATION</u>. Define the universe from which sample is to be selected, to include (1) the sampling unit; (2) the sampling frame; and, (3) total population size.

C. <u>SAMPLING APPROACH</u>. Describe factors affecting sampling approach/sample size and procedures for collecting and appraising information on each sampling unit.

1. <u>Sample Design</u>. Describe specific sampling approach--i.e., will sample be used to test for attributes, variables, or both? Will it be a simple (i.e., unrestricted), stratified, multistage, or cluster sample? Is it a discovery or acceptance sample?

2. <u>Sample Size</u>. (Determine sample size for total sample and/or each strata or stage.)

   a. Total population (see item B above)   _____
   b. Confidence Level   _____
   c. Desired Precision   _____
   d. Number of Strata (Stratified)   _____
   e. Number of Stages (Multistage)   _____
   f. Expected error rate or variance   _____
   g. Tolerable error rate or tolerable misstatement _____

3. <u>Sample Selection and Appraisal</u>. Describe procedures for selecting and appraising each sampling unit.

   a. How will sampling units be selected? (Samples can usually be selected using unrestricted random numbers; if another method is needed--e.g., selection based on fixed intervals, dollar unit sampling, etc.--explain why.)
   b. Define characteristics to be measured in each sampling unit--e.g., what is an error?
   c. In practical terms, how much time is required to review each sample unit?
   d. How will sample results be appraised--e.g., estimation methodology, software to be used?
   e. How will missing sampling units, if any, be treated?

D. <u>REPORTING SAMPLE RESULTS</u>. Describe how sample results will be used.

1. How will sample results be reported?
2. How will actual error rates be used in comparison with tolerable or expected error rates?
3. Will sample results be used to recover monies or to project monetary results?

CHAPTER 8

ASSURING A QUALITY REPORT

A.   SCOPE OF CHAPTER

This chapter sets forth the policies and practices for assuring that the OAS issues quality reports. These policies and procedures also apply to Management Alerts issued by OAS.

B.   REVIEW OF AUDIT DOCUMENTATION

General procedures for timely review of audit documentation are provided in Chapter 6. Particularly important to assuring a quality report are the requirements for timely reviews before the draft and final audit reports are prepared, referenced, and issued. The TeamMate audit file must document that the AIC, TL, and AD performed sufficient reviews to demonstrate that they concluded that the documentation adequately and sufficiently supported the audit results that will be presented in the audit report. The resolution of reviewer comments should also be documented in the TeamMate audit file.

C.   REVIEW OF REPORTS

The report review function performed by TLs, and Division and Headquarters management is essential to the overall quality of an audit report.

   1. Division Review. Effective supervisory review by the TL and field management is essential to the overall quality of an audit report. Early supervisory participation in the audit planning process helps to focus and sharpen the audit objective and to report on those objectives. Generally, the supervisor can provide a broader perspective on such matters as the reasonableness of the objective in view of OAS policies and practices and the anticipated reaction to the report by various auditees. As the audit progresses, supervisory input may help determine the type of report to be issued and assist in identifying additional data needed to substantiate and refine the findings or to sharpen recommendations. A draft report review methodology checklist is available (See Exhibit B) to assist auditors in reviewing reports prior to sending to the AIG and to the DIGAS as determined by the AIG for review.

2.   AIG and DIGAS Review. All reports are to be forwarded to the AIG and subsequently to the DIGAS, as determined by the AIG, for review prior to issuance. The purpose of this review is to assure (1) quality reports; (2) continuity and consistency of reports and recommendations; and, (3) compliance with OAS and OIG reporting policies.

3.   Documenting Changes Made by Reviewers. When report drafts are significantly changed as a result of reviews, the reasons for such changes must be documented in the audit file. For example, if the Scope and Methodology Appendix of a Blue Cover report is changed by the AIG or DIGAS reviewers to more closely adhere to generally accepted government auditing standards, a notation to that effect should be

included in the audit file. This process assures that audit team documented the rationale for significant changes between the initial draft and the final issued report.

D.   *CROSS-INDEXING REPORTS*

The AIC will follow specific steps in preparing a report for referencing. Workpaper and report cross-indexes are to be placed on reports by the person(s) who prepares the report. Detailed guidance on indexing draft reports in TeamMate is included in the TeamMate Protocol. The AIC is responsible for assuring that all portions of the report have been properly cross-indexed (including Management and Auditor Comments in final reports). Indexing is performed by electronically linking facts and figures to specific points in the audit documentation in TeamMate. "Highlighting" or "underlining" may be used when linking this material to a specific audit step. A workpaper cross-index will be repeated where there are one or more intervening cross-indexes. Cross-indexes can normally be directed to a specific section or point within a workpaper through electronic linking. If it is necessary to cross-index a statement (sentence or phrase) to more than one workpaper or to more than one page in a workpaper, the indexer simply creates additional electronic links as necessary. The report cross-index should be placed at the end of the statement to which it relates, followed by a front slash.

All figures, amounts, dates, and titles appearing in the report must be supported by identical figures or amounts in the workpapers. A referencer should not have to perform computations to determine how a reported figure was computed. For example, in support of a statement that "4 of the 7 (57 percent) reports did not have the required attachments", the cross-index may be referenced to entries such as: 3 reports had the required attachments and 4 reports did not have the required attachments. However, the referencer should <u>not</u> have to add the "3" and "4" to get support for the "7." That calculation should be reflected in the audit documentations. Likewise, the audit documentations should contain computations for "57 percent." Normally, calculations should be carried out to a greater degree of accuracy than the figure cited in the report; --e.g., $4 / 7 = 57.1$ percent (rounded) = 57 percent. In addition, a separate cross-index would be needed to support the criteria that required the attachments.

Whenever factual material is repeated in a draft report, it is desirable to cite other pages in the report for support rather than repeatedly citing the same supporting audit documentation. This situation may occur in the Information Memorandum in the report that summarizes information included elsewhere in the report. Citing other pages with the same information allows the referencer to carry forward the referencer's mark on material already verified. It may also aid in identifying redundant statements. Auditors should avoid citing a large number of cross-indexes to support a single statement. If several cross-indexes are needed to support a statement, a separate summary should be prepared which ties together the various pieces of information needed to support a finding or conclusion. However, the summary must be cross-indexed, factual items must be traced to source, and computations must be verified. Further direction for indexing and referencing in the TeamMate environment is contained in the TeamMate Protocol.

E.   *REFERENCING*

The referencing process is an essential step in assuring overall audit report quality. For quality assurance purposes, both the report and Information Memorandum will be referenced prior to issuance of the *draft* report. All subsequent changes to the report must also be referenced. The AIG will make a determination as to whether the facts in the Information Memorandum are consistent with the report prior to issuance.

All referencing will be done electronically in TeamMate. All audit reports will be independently referenced. Referencing will be performed by an audit staff member who is grade GS-12 or above. For Blue Cover reports or other reports with significant or controversial findings, an auditor at grade GS-13 or above should be selected as the referencer. The referencer must not have had any management responsibility for the audit nor have participated in the audit.

1. Purposes of Referencing. The purposes of referencing are to verify the accuracy of all facts stated in the report; to determine whether the audit documentations adequately support the findings, conclusions, and recommendations; and, to review the soundness and clarity of the report's presentation. Referencing does not relieve supervisors of their responsibilities for reviewing audit documentation or determining whether the report complies with all prescribed reporting policies and requirements. The referencer represents the AIG who is responsible for the report. The referencer, although not responsible for the report itself, is responsible for determining that every figure and statement of fact is supported by satisfactory evidence in the audit documentation and all amounts are mathematically correct. This includes:

    •   Checking each figure and statement of fact for accuracy within the report and to the supporting audit documentation;

    •   Independently verifying the accuracy of each total, percent, and mathematical calculation in the report; and,

    •   Determining whether the report findings, conclusions, recommendations, and auditor opinions are reasonable, logical, and clearly presented based on the facts and analysis in the supporting audit documentation.

2. Referencing Documentation. At the start of the referencing process, the referencer will be given access to the TM file which will contain the cross-indexed (hyperlinked) copy of the report. The referencer should refer to the TeamMate Protocol for authorized referencing techniques. The referenced report and all referencer comments must be retained in the TeamMate audit file. See Exhibit C for an example of an indexed and referenced draft report page in TeamMate.

3. Referencing Procedures. Referencing consists of three distinct phases. These are: (1) general familiarization with the report to be referenced and the underlying support; (2) detailed referencing; and, (3) resolution and disposition of the comments raised during the referencing process.

a.   General Familiarization. The referencer should first read the report to make sure they understand the message being conveyed (clear, concise and logical). Then the underlying source material should be scanned to obtain a general understanding of the organization of the audit documentation. The general familiarization phase provides referencers with the opportunity to identify any restrictions that will affect the referencing process and will necessarily qualify their work. The referencer should note these restrictions. However, they must be resolved before the referencing is complete.

b.   Detailed Referencing. During the detailed referencing phase, the referencer checks every fact, figure, date, title, etc., in the written product to the underlying support to determine its accuracy and to assure that it is consistently used. Important items of information in the report such as--contract numbers, quotations, dollar amounts, interpretation of contract terms, paraphrasing of policy, law, or regulation, etc.--must be checked to copies of the original source in the audit documentation. The referencer's review is independent and based on the referencer's own knowledge and logic. The referencer should question the adequacy of support included in the audit documentation when warranted regardless of whether the documentation has already had supervisory review. If the opinions, conclusions, and recommendations are not consistent with the factual material examined, the referencer should make a referencer note. Lead schedules and summaries may be used as support if the information on them has been cross-indexed, traced, and verified to the original source. The referencer should trace an adequate number of selected items to the source indicated to assure that the accuracy of information. To the extent that the referencer tests audit summaries and lead schedules, they must "tick" off that information the same way they do for the report being referenced. Basic guidelines for the referencer include the following:

- The referencer must indicate acceptance that each line of the report is supported by placing a referencer's tick mark (~) at each line (See TeamMate Protocol for guidance on electronic tickmarks.). Every figure, date, proper name, title, address, and each word of a quotation will be referenced by placing a tick mark (~) directly above the beginning of each word or number. In addition, each subsequent addition inserted into the draft report must be ticked. This includes changes made as the result of the referencer's comments.

- All computations should be checked by the referencer and marked (~) to indicate that the computation has been independently verified.

- The referencer should record all referencer notes, comments, points, questions, and suggestions using a method authorized in the TeamMate Protocol.

- The referencer should verify that adequate support is contained in the audit documentation for all reported facts. The referencer should read each item cited as support to see if there are any conditions or

qualifications that would affect the validity of the audit documentation. All references must be to the audit documentation in TeamMate which is hyper-liked to any supporting source documents. When support for a reported fact is not located in the cited audit documentation, the referencer should immediately write a referencer note and proceed with the remainder of his/her review.

- The referencer should not normally spend time searching through the TeamMate audit file if a cited document does not provide the needed support. However, if the referencer becomes aware that an uncited document may contain the needed information, the referencer should note this in their referencer comment (e.g., their note may state that a particular fact is not supported by the cited document and identify the specific document that may contain the needed information).

- When referencing classified material, referencing comments should also be classified as appropriate for proper security.

    c.   Referencing Computer-Generated Data. In referencing computer-generated data, the referencer has two major considerations: (1) how far to go in referencing computer programs written by OIG staff; and, (2) the extent to which the reliability of computer-generated data should be assessed. The use of computers and computer programs does not lessen the referencer's responsibilities. The following standard referencing procedures will generally apply:

- An audit trail must be provided so that report data can be traced back to the supporting source data;

- Audit documentation should fully support the procedures, computer programs, and micro coding;

- When applicable, electronic data should be included as part of the audit documentation and should be properly referenced; and,

- Referencers must assure that computer instructions developed by OIG staff and used on the assignment are fully documented and reviewed for appropriateness and accuracy.

    d.   Reliability Assessments. The audit staff must make a reliability assessment when computer-generated data or information is an integral part of the auditee's operations being audited, or computer products or outputs are to be used in a report or in support of a finding. (See Chapter 7.) Reliability assessments may entail additional verification with computer-generated data or tests of reasonableness. The referencer's responsibility in this area is to verify that a reliability assessment was made or make sure that appropriate qualifying language is included in the "Scope" section of the report if a reliability assessment was not adequately made.

    e.   Other Referencer Considerations. The following additional factors should be considered by the referencer:

- If the audit or a significant portion thereof was not adequately performed or documented in the TeamMate audit file and the Scope section is not qualified, the referencer should prepare a referencer comment.

- Prior reports published by the OIG may be used as supporting documentation if that information is historical or not subject to change.

- The referencer is responsible for assuring that all factual information is appropriately identified and supported. Any information identified as an "opinion" or "conclusion" should be checked to assure that it does not include any elements of fact that would require direct audit documentation support. Also, testimonial evidence must be identified as such. Likewise, all conclusions should be evaluated against factual material in the report to assure that "cold" readers would reach a similar conclusion based on the same facts.

- Where material is supported only by interview evidence, the referencer should check to determine whether the support is adequate to make an unqualified statement. This would depend on the source of the information, the source's position, the source's probable knowledge of the subject, and confirmation by others. In some cases, the statement may have to be modified by "We were told" or "We were informed." Also, the referencer should watch for statements that may not be true, even if attributed to a source (i.e., is the source credible?). The OIG should not repeat potentially untrue statements, even if the statements are attributed to a source.

- The referencer is responsible for suggesting editorial changes, such as grammar, punctuation, misspelled words, and choice of words, only to the extent that meanings need to be clarified in order to properly discharge the referencing duties. It is, however, within the referencer's duties to comment on OAS standards and procedures, such as reporting formats, scope statements, internal controls, data reliability, and other requirements addressed in this Manual.

- If the report contains any figures carried forward from a preceding report--e.g. a financial statement audit--such figures should be cross-indexed and referenced to the previous report to assure that they are in agreement. If differences appear, they must be explained in the report.

4. <u>Resolution and Disposition of Referencer Comments</u>. Once the detailed referencing has been completed, the audit staff must respond in TeamMate to each referencer comment, record the proposed disposition in a manner authorized by the TeamMate Protocol, and advise the referencer that referencer comments have been addressed. The audit staff should clearly indicate whether they agree or disagree with the referencer's comments. The referencer reviews the disposition made by the audit staff. If satisfied with the disposition, the referencer indicates approval by signing off in an authorized manner. The referencer must also tick the accepted line or item in the report. (See Exhibit C)

If additional source material has been provided in response to a comment, the referencer must make sure the additional material is added to the TeamMate audit file and must indicate in the referencer comment that these sources have been added. If the disposition involves a revision to the report, the referencer must reference the report changes and, when satisfied, place a tickmark on the revised material.

Frequently, the referencer and audit staff will discuss the comments raised and their disposition. Oral explanations by the audit staff often provide clarification for the referencer. The referencer must keep in mind, however, that all facts must be supported by written material in the TeamMate audit file. Therefore, oral explanations alone will not suffice. The fact that an explanation was needed may indicate the need to clarify the report or to enhance the supporting audit documentation. If the referencer and the audit staff cannot agree on the disposition of a comment, the audit staff will record a brief explanation of the reason for disagreeing with the comment, pointing out the differences that generated the disagreement. The "open" referencer comments will be brought to the attention of the AD, who will meet with the referencer and the audit staff to resolve the matter. Only the AD or higher-level official can close a point without satisfying the referencer. However, referencers have the responsibility to appeal to the AIG if they disagree with the AD's decision because the referencer represents the AIG. It is also the AD's responsibility to inform the AIG about all referencer comments that are considered by the referencer to be unresolved.

For further direction on indexing and referencing in the TeamMate environment, see the TeamMate Protocol.

F.   *REVISIONS TO REFERENCED REPORTS*

All changes made to a report after the initial referencing, including auditee management's comments added to the final report, must also be referenced. The only exceptions are minor spelling and grammatical corrections. New material added or changes made to the report must be cross-indexed to the supporting audit documentation before being reviewed by the referencer. All cross-indexing supporting new material or changes, as well as the related referencer marks, should be in the same color as was used during the first referencing. In referencing the changes, the referencer must determine whether the changes affect other previously referenced sections of the report. The unchanged material in a revised report must be cross-indexed to the prior version of the referenced report to provide an audit trail. To accomplish this, a statement can be made on the first page of the revised report explaining that any section not highlighted or otherwise marked to show that material was added or changed remains the same and should be referenced to the previous version of the report. In addition to referencing all changes to the report, the referencer must verify that the unchanged portions of the revised report have not changed.

On occasion, reports can undergo several revisions. In these cases, to assure a quality report, for clarity, and to ensure that all changes and their impact have been referenced, it is suggested that the final version of the report be completely cross-indexed and referenced. Prior to issuance of the final audit report, the referencer completes the certification document (See Exhibit F).

G. *DISCLOSING CLASSIFIED, SENSITIVE, AND OUO INFORMATION*

The Department has issued new guidance on the public release of information. For this reason, all auditors must be aware of what kind of information is used to prepare audit documentation and reports. As a reminder, all audit work that deals with classified information must be run through a classifier for review before drafts or final reports can be issued. Keep in mind that it is possible that information taken from unclassified documents can, when combined, become classified. A checklist, *Potentially Classified Information*, has been developed to help you make a determination about what may be classified and may need closer scrutiny. (See Exhibit D.) This checklist should be completed and included as documentation in the audit documentations.

Another checklist, *Potentially Sensitive Information,* has also been developed to aid in identifying information that is not classified but that should be protected because of sensitive governmental, commercial, or personal interests. Because of changes in the world security situation, the Department has increased its awareness and vigilance related to sensitive information. Many items previously considered to be publicly available have now been removed from Departmental web sites and are not available for general distribution. As such, much more of the information we called on to examine during our audits and special reviews is considered sensitive. To ensure that we are adequately protecting such information, auditors should refer to the *Department's Manual for Identifying and Protecting Official Use Only Information*, DOE M 471.3-1. In addition, to determine whether audit documentation and/or reports should be marked "Official Use Only", the checklist at Exhibit E should also be completed and included in the audit documentation.

Once the checklist has been completed, if a draft report contains sensitive information, each DD will be responsible for determining whether there is a way to revise the report to eliminate the sensitive information. If the responsible AIG determines that the sensitive information is needed in the report, the AIG will work with the DD to determine how to proceed with the report.

Each AD is responsible for assuring that prior to the issuance of any draft report; the checklists and certifications at Exhibits D, E, and F have been completed, and included in the TeamMate audit file. ADs will document this assurance by completing appropriate sections on the Assistant Director Checklist (See Chapter 4, Exhibit C.).

STATEMENT OF CONFORMANCE WITH AUDIT STANDARDS

AUDIT TITLE:

AUDIT CONTROL NUMBER:

PURPOSE: Demonstrate and document conformance with generally accepted government auditing standards.

BACKGROUND: In July 2007, the U.S. Government Accountability Office (GAO) published the revised "Government Auditing Standards." This publication, also known as the "Yellow Book," contains standards for audits of (1) government organizations, programs, activities, and functions; and (2) government funds received by contractors, nonprofit organizations, and other non-government organizations. The Inspector General Act of 1978 (as amended) requires that audit work conducted by the inspectors general, as well as audit work conducted by nonfederal auditors on their behalf, comply with the standards established by the Comptroller General.

The Audit Manual (AM) issued by the Office of Audit Services (OAS) contains additional policies and procedures to implement the "Yellow Book" standards.

CONFORMANCE WITH STANDARDS: For the general, fieldwork, and reporting standards discussed below, we have documented our conformance:

General Standards:

Chapter 3 of the Yellow Book, along with the ethical principles in government auditing presented in chapter 2, establishes the general standards for the auditor and the audit organization to uphold the creditability of audit results.

1. The staff assigned to conduct the audit must collectively possess adequate professional competence for the tasks required. (YB 3.40; AM Chapter 3, Section B)

    Based on OAS training records and our personal knowledge of each auditor's skills, the auditors listed below satisfied Yellow Book requirements for training and continuing professional education and collectively possess adequate professional competence for the tasks required:

Team Leader	
Auditor-In-Charge	
Staff Auditor	
Staff Auditor	
Staff Auditor	
Staff Auditor	

2. In all matters relating to the audit work, the individual auditors and audit organizations, whether government or public, must be free from personal, external, and organizational impairments and must avoid the appearance of such impairments of independence. (The TeamMate audit file will document any potential personal impairment to independence identified by assigned auditors, any observations of potential impairments, and any issues or

factors that could be a potential external impairment to independence.). (YB 3.02; AM Chapter 3, Section C)
To the best of our knowledge, neither organizational nor personal independence has been impaired with regard to this audit.

3.   Auditors must use professional judgment in planning and performing audits and in reporting the results. (YB 3.31; Chapter 3, Section D)
We believe that the TeamMate audit file and the resulting audit report adequately document our compliance with this general standard.

Field Work Standards:
(On this workpaper, auditors should include only the section below applicable to the subject audit.)

Performance Audits: Chapter 7 of the Yellow Book establishes the fieldwork standards for performance audits:

  1.   Auditors must adequately plan and document the planning for the work necessary to address the audit objectives and prepare a written plan for each audit. (YB 7.06 & 7.50; AM Chapter 5)

       Audit Profile (see W/P_____)   Survey Program (see W/P _____)
             End-of-Survey Decision Memorandum and Briefing (See W/P _____)
       Audit (verification phase) Program (see W/P   )

  2.   Audit supervisors or those designated to supervise auditors must properly supervise audit staff. (YB 7.52; AM Chapters 4 and 6).
       Supervisory reviews are documented by signoffs and other evidence (such as coaching notes and checklists) in the TeamMate audit file.

  3.   Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. (YB 7.55; AM Chapters 4 and 6).
       The audit documentation contained in the TeamMate audit file demonstrates evidence of our audit work. We believe the audit documentation shows that we have obtained sufficient, appropriate evidence to support our audit judgments and conclusions. Additionally, the report referencer (See W/P   ), OIG Headquarters, and various levels of audit management, as appropriate, have been satisfied as to the basis and support for our audit findings and conclusions.

  4.   In the context of the audit objective, auditors should determine which laws, regulations, and other compliance requirements are significant, assess the risk of violations, and design and perform procedures to provide reasonable assurance of detecting violations that are significant.(YB 7.28; AM Chapter 4 section D).
       The audit survey/program contains specific audit steps for evaluating compliance with laws and regulations related to our audit objectives. The TeamMate audit file (See W/P_____) documents our audit work and conclusions related to compliance with laws, regulations, and requirements in the context of the audit objective.

5. In planning, auditors should assess the risk of fraud occurring that is significant in the context of the audit objectives. If factors or risks are identified that indicate fraud has or is likely to occur that is significant in the context of the audit objective, auditors should design procedures to provide reasonable assurance of detecting such fraud (YB 7.30;.
The audit survey/program contains specific audit steps for assessing the risk of fraud occurring that is significant in the context of the audit objectives. The TeamMate audit file (See W/P_____) documents our assessment.

6. For internal control that is significant within the context of the audit objectives, the auditor should obtain an understanding, assess control design and implementation, obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls, and modify audit procedures based on the assessment of internal control (YB 7.16 & 7.16; AM Chapter 5)
The audit survey/program contains specific audit steps for assessing internal control that is significant in the context of the audit objectives. The TeamMate audit file (See W/P_____) documents our assessment.

7. Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. (YB 7.77;

The TeamMate audit file provides audit documentation related to planning, conducting, and reporting for this audit. In our opinion, audit documentation is sufficient to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

Financial Audits: Chapter 4 of the Yellow Book incorporates AICPA fieldwork standards and establishes additional standards for financial audits:

1. Auditor must adequately plan the work and must properly supervise any assistants. (AICPA; YB 4.03a; AM Chapters 4 & 5)
*Audit Profile (see W/P_____)   Survey Program (see W/P _____)
End-of-Survey Decision Memorandum and Briefing (See W/P _____)
Audit (verification phase) Program (see W/P   )
Supervisory reviews are documented by signoffs and other evidence (such as coaching notes and checklists) in the TeamMate audit file.*

2. Auditor must obtain sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error fraud and to design the nature, timing, and extent of further audit procedures (AICPA; YB 4.03b; AM chapter 12).
The audit program contains specific audit steps for understanding of the entity and its environment including internal control, assessing the risk of material misstatement of the financial statements, and designing the nature, timing, and extent of audit procedures. The TeamMate audit file (See W/P_____) documents our work.

3. Auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under the audit (AICPA; YB 4.03c; AM Chapter 12).
    The audit documentation contained in the TeamMate audit file demonstrates evidence of our audit work. We believe the audit documentation shows that we have obtained sufficient, appropriate evidence to support our audit judgments and conclusions. Additionally, the report referencer, OIG Headquarters, and various levels of audit management, as appropriate, have been satisfied as to the basis and support for our audit findings and conclusions.

4. Auditors should communicate with the audited entity their understanding of the services to be performed for each engagement and document that understanding through a written communication (YB 4.05; AM Chapter 12).
    Details of the understanding of the engagement and the objectives are documented in the TeamMate audit file (See W/P   ).

5. Auditor should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements (YB 4.09; Chapter 12).
    The audit program contains specific audit steps to address corrective action and findings and recommendations from the previous engagements (See W/P   ).

6. Auditor should design the audit to provide reasonable assurance of detecting misstatements that result from violations of provisions of contracts and or grant agreements and could have a direct and material effect on determination of financial amounts significant to the audit objectives (YB 4.10; Chapter 12).
    The audit program contains specific audit steps to provide reasonable assurance of detecting misstatements that result from violations of provisions of contracts and or grant agreements and could have a direct and material effect on determination of financial amounts significant to the audit objectives. (See W/P   ).

7. Auditor should develop the elements of findings – criteria, condition, cause, and effect (YB 4.14; Chapter 12).
    The auditor developed the finding elements for findings as documented in the TeamMate audit file (See W/P   ). Or this audit resulted in no findings (See W/P   ).

8. Auditor's must prepare audit documentation in connection with each audit in sufficient detail to provide a clear understanding of the work performed, audit evidence obtained and its source, and the conclusions reached (YB 4.19; AM Chapter 6).
    The audit documentation contained in the TeamMate audit file demonstrates evidence of our audit work. We believe the audit documentation shows that we have obtained sufficient, appropriate evidence to support our audit judgments and conclusions. Additionally, the report referencer (See W/P   ), OIG Headquarters, and various levels of audit management, as appropriate, have been satisfied as to the basis and support for our audit findings and conclusions.

Attestation Engagements: Chapter 6 of the Yellow Book incorporates AICPA standards and establishes additional fieldwork standards for attestation engagements:

1. Auditor must have reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users (AICPA general standard; YB 6.03).
   Auditor determined that suitable criteria were available to evaluate the subject matter (See W/P   ).

2. Auditor must adequately plan the work and must properly supervise any assistants (AICPA; YB 6.04a; AM Chapter 5 & 6)
   Audit Program (see W/P   )
   Supervisory reviews are documented by signoffs and other evidence (such as coaching notes and checklists) in the TeamMate audit file.

3. Auditor must obtain sufficient evidence to provide a reasonable basis for a conclusion that is expressed in the report (AICPA; YB 6.04b; AM Chapter 6).
   The audit documentation contained in the TeamMate audit file demonstrates evidence of our audit work. We believe the audit documentation shows that we have obtained sufficient, appropriate evidence to support our audit judgments and conclusions. Additionally, the report referencer (See W/P   ), OIG Headquarters, and various levels of audit management, as appropriate, have been satisfied as to the basis and support for our audit findings and conclusions.

4. Auditor should have written evidence of the understanding of the audit services to be performed (YB 6.06; AM Chapter 5).
   Understanding of the audit and its objectives are documented in the TeamMate audit file (See W/P   )

5. Auditor should evaluate whether audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter (YB 6.09; AM Chapter 5).
   The audit program contained specific audit steps to address corrective action and findings and recommendations from the previous engagements (See W/P   ).

6. In planning examination-level attestation engagement, auditor should obtain sufficient understanding of internal control that is material to the subject matter in order to plan the engagement and design procedures to achieve the engagement objectives (YB 6.10).
   The audit program contained specific audit steps to obtain sufficient understanding of internal control that is material to the subject matter in order to plan the engagement and design procedures to achieve the engagement objectives (See W/P   ).

7. In an examination-level engagement, the auditor should design the engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of contract

or grant agreements that could have a material effect on the subject matter of the engagement. In review-level and agreed-upon- procedures-level engagements, auditors should design procedures to determine if fraud, illegal acts, or violations of agreement are likely to have occurred and their effect on the engagement only in instance when information comes to the auditor's attention indicating that fraud, illegal acts, or violations material to the subject matter could have occurred (YB 6.13).
The audit program contained specific audit steps to address fraud as appropriate depending on the type of attestation engagement (See W/P   ).

8. Auditor should develop the elements of findings – criteria, condition, cause, and effect (YB 6.15).
The auditor developed the finding elements for findings as documented in the TeamMate audit file (See W/P   ). Or the audit disclosed no findings (See W/P   ).

9. Auditors must prepare attest documentation in sufficient detail to provide a clear understanding of the work performed, the results, evidence obtained and source, and conclusions reached (YB 6.20).
The audit documentation contained in the TeamMate audit file demonstrates evidence of our audit work. We believe the audit documentation shows that we have obtained sufficient, appropriate evidence to support our audit judgments and conclusions. Additionally, the report referencer (See W/P   ), OIG Headquarters, and various levels of audit management, as appropriate, have been satisfied as to the basis and support for our audit findings and conclusions.

Reporting Standards

(On this workpaper, auditors should include only the section below applicable to the subject audit.)

Performance Audits: Chapter 8 of the Yellow Book describes a number of reporting standards for performance audits. The OAS "Report Style Manual" describes the general reporting policies and provides specific guidance on performance audit reports. Specific requirements include:

- Auditors must issue audit reports communicating the results of each completed performance audit (YB 8.03).

- The auditor report should 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 GAGAS; (4) a summary of the views of responsible officials; and, (5) if applicable, the nature of any confidential or sensitive information omitted (YB 8.08).

- In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relationship to the audit objectives (YB 8.14).

- Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based on the audit work performed (YB 8.19).

- Auditors should report as a finding fraud, illegal acts, significant violations of provisions of contracts or grants, or significant abuse (YB 8.21).

- Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings (YB 8.27).

- Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when potential for improvement is substantiated by the reported findings and recommendations (YB 8.28).

We believe that (1) our final report (See W/P   ) complies with all Yellow Book reporting standards for performance audits. Our audit work supporting the report has been documented in the TeamMate audit file. The issued report was subject to OAS policies and procedures for supervisory review, referencing (See W/P   ), editorial review, and report staffing and distribution.

Financial Audits: Chapter 5 of the Yellow Book incorporates AICPA reporting standards and establishes additional standards for financial audits. AM Chapters 12 and the OAS "Report Style Manual" describe the general reporting policies and provide specific guidance on financial audit reports. Specific requirements include:

- The auditor must state whether the financial statements are presented in accordance with generally accepted accounting principles. (AICPA; YB 5.03a)
- The auditor must identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period (AICPA; YB 5.03b).
- When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the report (AICPA; YB 5.03c).
- The auditor must either express an 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 AICPA; YB 5.03d).
- When auditors complied with GAGAS, they should include a statement of compliance in the report (YB 5.05).
- Auditors must report on internal control over financial reporting and on compliance with laws, regulations, and provisions of contract or grant agreements (YB 5.07).
- Audits should report on significant deficiencies in internal control identifying those considered to be material weaknesses, all instances of fraud and illegal acts unless inconsequential, violations of contracts or grants and abuse that could have a material effect on the financial statements (YB 5.10).
- Auditors may emphasize in the audit report significant matters regarding the financial statements (YB 5.23).
- Auditors should obtain and report views of responsible officials concerning findings, conclusions, recommendations, and planned corrective actions (YB 5.32).

We believe that our final report (See W/P   ) complies with all ACIPA and Yellow Book reporting requirements for financial statement audits. Our audit work supporting the report has been documented in the TeamMate audit file. The issued report was subject to OAS policies and procedures for supervisory review, referencing (See W/P   ), editorial review, and report staffing and distribution.

Attestation Engagements: Chapter 6 of the Yellow Book incorporates AICPA reporting standards and establishes additional standards for attestation engagements. The OAS "Report Style Manual" describes the general reporting policies and provides specific guidance on audit reports which include attestation engagements. Specific requirements include:

- Auditor must identify the subject matter or the assertion being reported on and state the character of the engagement (AICPA; YB 6.30a).

- Auditor must state conclusion about subject matter or the assertion in relation to the evaluation criteria (AICPA; YB 6.03b).

- Auditor must state all significant reservations about the engagement, the subject matter, and the assertion (AICPA; YB 6.03c).

- When appropriate, the auditor must state in the report that the report is intended for use by specified parties (AICPA; YB 6.03d).

- When auditors complied with GAGAS, they should include a statement of compliance in the report (YB 6.32).
- As applicable to the engagement, auditors should report significant deficiencies in internal control identifying those considered to be material weaknesses, all instances of fraud and illegal acts unless inconsequential, violations of contracts and grants and abuse that could have a material effect on the subject matter (YB 6.33).

- Auditors should obtain and report views of responsible officials concerning deficiencies, fraud, illegal acts, violations of agreements, findings, conclusions, recommendations, and planned corrective actions (YB 6.44).

We believe that our final report (See W/P   ) complies with all ACIPA and Yellow Book reporting requirements for attestation engagements. Our audit work supporting the report has been documented in the TeamMate audit file. The issued report was subject to OAS policies and procedures for supervisory review, referencing (See W/P   ), editorial review, and report staffing and distribution.

CONCLUSION:

In our opinion, based on the above evidence and analysis, we conducted this audit in accordance with generally accepted government auditing standards.

Auditor-in-Charge   Date:

Team Leader: Date:

Assistant Division Director:

Draft Report Review Methodology

OVERALL		*Comments*
Were the findings supported by sufficient, appropriate evidence related to the audit objectives?		
Are the findings presented in a manner to promote understanding of the matters reported and to provide convincing but fair presentation of the evidence?		
Does the report convey a constructive and objective message, which includes credit for positive aspects of the operation?		
Does the report provide enough detail to permit a non-expert to understand the issues?		
Are the opinions, conclusions, and recommendations expressed consistent with the factual material presented?		
MEMO		*Comments*
Is the Memo appropriately addressed?		
Does the background information provide context for the overall message and help the reader understand the findings and significance of the issues discussed?		
Is the objective the last sentence of Background?		
Does the Background objective match the Objective in the Appendix?		
Does the Results of Audit section start on Page 1?		
Are abbreviations set up?		
Are cc:s correct?		
Do prior audits follow appropriate format?		
TABLE OF CONTENTS		*Comments*
Does the table of contents contain the words "Report on" in front of the title?		
Is the spacing on table of contents correct?		
Do the sections in the table of contents match the headers in the report?		
Is page numbering correct in the table of contents?		
Are the appendices numbered and in the proper order?		

REPORT BODY		Comments
Is there a finding title at the top of page 1?		
Do the headers accurately reflect the subsequent discussion?		
Are the headings neutral?		
Does each paragraph have a topic sentence?		
Are the topic sentences consistent with the umbrella paragraph and the Results of Audit in the memo?		
Does every paragraph contain sufficient evidence to support the topic?		
Is the information in each paragraph limited to that necessary to prove the topic sentence?		
Are examples limited to the amount needed to prove the audit objective?		
Are all of the finding elements present and clearly distinguishable (condition, criteria, cause, and effect)?		
Are there logical connections between the finding elements?		
Are mitigating factors presented within the finding elements?		
Does the condition directly address the audit objective?		
Is cause clearly demonstrated by the evidence and reasoning presented?		
Are recommendations directed at resolving the cause? Are they specific and action oriented, feasible and cost effective, and directed to those who need to act?		
Are amounts of estimated savings and other benefits associated with each recommendation presented? Does the report explain how we developed the amount?		
Do the examples flow through the finding elements? (Is the example a description of the condition, which resulted from the identified cause(s), and will contribute to the overall effect? Most importantly, will the recommendations prevent recurrence?)		
Were visual aids (such as pictures, charts, graphs and maps) used when appropriate to clarify and summarize complex material?		

Scope and Methodology		Comments
Does the report contain a specific statement to address the timeframe of events reviewed?		
Did the report include the organizations, geographic locations, and period covered?		
Are pertinent audit steps included in the methodology?		
Does the methodology include a meaningful statement on GPRA measures?		
Does the methodology address Reliability of Computer-Processed Data?		
Does the methodology address GAGAS?		
If applicable, did the report include information on any significant constraints imposed on the audit approach by data limitations or scope impairments, including demands of access to certain records or individuals?		
If sampling was used, did the report disclose that a sample was used, the sample design (description of the universe from which the sampled items were selected, size of the universe and size of the sample), why the sample was chosen (sample objectives), whether the sample can be projected to the intended population, and the number of non-response/missing records, if any?		
FORMAT		Comments
Are all quotes straight?		
Is there excessive use of passive voice?		
Are technical terms, abbreviations, and acronyms clearly defined and properly used?		
Are hyphenated words, dates, and numbers kept together with hard returns?		
Are report titles italicized?		
Are headers properly formatted?		

DOE F 1325.8
(08-93)

United States Government | **Department of Energy**

Memorandum

DATE: February xx, 2009   Audit Report Number: OAS-L-0x-xx

REPLY TO
ATTN OF: ĨG-30 (Ã08FN009)PA5.d

SUBJECT: ˜Report on "T̃he D̃epartment of Ẽnergy's Ĩmplementation of R̃evised ÕMB C̃ircular
            ˜No. Ã-123" AS3.a

TO: ˜Chief Financial Officer, C̃F-1 AS3.a

INTRODUCTION AND OBJECTIVE

˜The Offĩce of Man̈agement and B̃udget's (ÕMB) revised Cir̃cular Ño. A-1̃23 (Ã˜123) requires

F̃ederal agencies to assess, document and test their internal controls˜over financial reporting and

prepare an annual assurance statement on the˜operating effectiveness of those controls. B.3.4/ In

F̃iscal Ỹear (F̃Y) 2õ06, the˜Depãrtment of Ẽnergy (Depãrtment) began a three year phased

approach to˜implement A-Ĩ23 B.3.4/ and, in F̃Y 2õ08 it completed its third and final phase of

˜implementation. F.1.PS/

˜Our prior reviews of the first and second phases of the Dep̃artment's implementation of A-Ĩ23

B.3.3 B.3.4˜/ found that the Depãrtment was making good˜progress and that it properly disclosed

˜that its implementation was a work in˜process. B.3.3 B.3.4/ For these years, the D̃epartment

˜reported the limited scope of˜its internal control assessment and qualified its assurance

statement˜to reflect a˜planned completion date of F̃Y 2õ08.A.1.PS / Our F̃Y 2õ007 review also

disclosed

CHECKLIST – POTENTIALLY CLASSIFIED INFORMATION

If your audit work or report deals with any of the following information, be sure to have your information reviewed by a classifier to ensure you are not inadvertently discussing Restricted Data or Formerly Restricted Data or any other level of classification. Information in the aggregate can be classified even if taken from unclassified sources.

AIDS FOR REVIEW OF INFORMATION THAT MAY BE CLASSIFIED OR CONTROLLED	YES	NO
Source or formula for Chemical/Biological Agents that has not been widely reported in open scientific literature.		
Existence of a specific Chemical/Biological agent that is considered a threat to national security at a specified location within a government facility.		
Statements that a specific Chemical/Biological agent considered a threat to national security cannot be detected by existing technology.		
Information concerning significant technical advances and break-throughs in Chemical/Biological agent detection, dissemination, or response technologies that could significantly assist an adversary.		
Results or interpretation of research results from computer modeling that reveal specific operational deficiencies or vulnerabilities of a facility, infrastructure, or response plan which could be exploited or otherwise could materially aid an adversary in planning or conducting a Chemical/Biological attack.		
Source term parameters (e.g. location, quantity, release rate, dispersal mechanisms, physical state, or particulate size distribution) of a Chemical/Biological agent **and** the airborne or surface concentrations resulting from dispersion modeling.		
Specific dispersion mechanisms for specific chemical/Biological agents, including grinding techniques and pressurized systems that would be effective for dispersion over a large area.		
Details of operational scenarios either for intelligence, civilian, or military organizations that would reveal current vulnerabilities or lessen the effectiveness of the scenarios.		
Information about deployment of a specific detector or response system that could be used to defeat or significantly reduce the effectiveness of that system or otherwise materially aid an adversary in planning or conducting an attack.		

AIDS FOR REVIEW OF INFORMATION THAT MAY BE CLASSIFIED OR CONTROLLED	YES	NO
Descriptions of specific vulnerabilities of decontamination equipment or procedures that could be exploited to prevent or significantly reduce their ability to perform required functions or otherwise materially aid an adversary in planning or conducting a Chemical/Biological attack.		
Descriptions of specific conditions (e.g., carrier for an agent or environmental condition) that could be exploited to reduced the effectiveness of standard decontaminants or decontamination procedures such that risks to unprotected personnel cannot be reduced to acceptable levels, or otherwise would aid an adversary in planning a Chemical/Biological attack.		
Nuclear weapon design, fabrication, and utilization.		
Radiological warfare.		
Radiological dispersal devices.		
Inertial confinement fusion.		
Military nuclear reactors (not necessary for civilian).		

CHECKLIST -- POTENTIALLY SENSITIVE INFORMATION

The following table is a listing of information considered potentially sensitive. If the information is detailed to such an extent that it would cause or potentially could cause damage to U.S. national security, citizens, or property, it cannot be placed in our public reports. Therefore, when you prepare your reports be sure to check for this type of information.

CATEGORIES/TYPES OF INFORMATION	YES	NO
Facilities		
➢ Detailed description and location of facilities to include maps, written directions, drawings, blue prints, photographs and such.		
➢ Detailed descriptions and location of storage facilities for nuclear or other hazardous materials.		
➢ Detailed descriptions and location of personnel or facility support systems (e.g. water supply, electrical supply systems, communications systems, emergency response personnel/equipment).		
➢ Detailed descriptions and locations of computer systems used to process, store, and transmit sensitive information.		
➢ Environmental Impact Statements that provide the consequences for what is being studied.		
➢ Any detailed information pertaining to other sites that has not been reviewed/approved by the other site.		
Materials		
➢ Form and quantity of hazardous materials, (chemical, nuclear, biological).		
➢ Vulnerabilities of materials to unauthorized access or destruction.		
➢ Consequences of release of hazardous materials.		
➢ Detailed transportation related information (routes, maps, shipping means, containers).		
Security/Safety		
➢ Detailed plans, procedures, communications, reaction times, or capabilities that would allow someone to determine vulnerabilities of the site.		
➢ Specific assessments, exercise results, evaluations for a particular site.		
➢ Specific personnel data identifying security/safety personnel.		
➢ Specific equipment and its potential uses.		

CATEGORIES/TYPES OF INFORMATION	YES	NO
Assessments		
➢ Site-specific vulnerability assessments.		
➢ Site-specific safety assessments/analysis.		
➢ Site-specific risk analyses.		
➢ Specific hazardous assessments (Dispersion models and analyses, accident analyses, or site hazards).		
Personnel		
➢ Specific organization charts or phone lists identifying senior management/key personnel.		
➢ Specific personal data to include travel plans, meetings and such.		
➢ Specific personal data to include social security number or birthdates, and such.		
➢ Specific training materials that include sensitive information.		
Programs		
➢ Detailed information identifying sensitive programs, special projects, SAPs, WFO.		
➢ Reports detailing specific activities and/or results from programs and projects.		
➢ Information pertaining to specific programs at other facilities/sites that has not been cleared with the other sites for publication on a publicly accessible web site.		

Note: Because of changes in the world security situation, the Department has increased its awareness and vigilance related to sensitive information. Many items previously considered to be publicly available have now been removed from Departmental web sites and are not available for general distribution. As such, much more of the information we are called on to examine during our audits and special reviews is considered sensitive. To ensure that we are adequately protecting such information, in addition to completing the above checklist, you should refer to the *Department's Manual for Identifying and Protecting Official Use Only (OUO) Information*, DOE M 471.3-1.

REFERENCER CERTIFICATION DOCUMENT

OIG Audit Number: _____

OIG Audit Title: _____

<u>Issued Draft Report</u>: I reviewed the draft report prior to issuance and certify that all of my comments have been addressed or have been cleared by the appropriate level of management.

<u>Final Audit Report</u>: I reviewed the management comments as presented in the final report and agree that relevant technical comments appended to the official statement are accurately and fairly presented. In addition, any auditor rebuttal and/or concurrence comments are supported by documented support in the workpapers. Further, I reviewed the final audit report prior to issuance and certify that all my comments have been addressed or have been cleared by the appropriate level of management.

_____
Signature/Date

_____
Printed Name

<u>NOTE TO REFERENCER</u>: Once the Final Audit Report is ready to be issued and you are comfortable with your final review, print this form, sign it and scan it into the PA1 section of the TeamMate audit file.

CHAPTER 9

AUDIT RESOLUTION AND FOLLOW-UP

A.   *SCOPE OF CHAPTER*

The resolution and follow-up of audit recommendations are integral parts of auditing and have a direct bearing on its effectiveness. This chapter describes the OAS policies and procedures for resolving audit recommendations and performing follow-up audit work.

B.   *AUDIT RESOLUTION*

Audit resolution is critical to the success of the audit process. Audit resolution encompasses the efforts taken by the Department and the OAS to address findings and reach agreement on the existence and causes of adverse conditions and the corrective actions needed. If the Department and the OAS do not have a clear agreement on the corrective actions to be taken, the adverse conditions identified in the audit may continue. Generally, audit resolution occurs when the OAS and the responsible managers of audited organizations and Department elements affected by audit findings (management) agree on the findings and an acceptable course of corrective action.

1.   Communicating Potential Findings and Recommendations. Audit resolution starts while the audit is being performed. By keeping management informed about developing issues and adverse conditions, the auditor has taken the first step to resolving potential findings. The audit team should routinely communicate with management to ensure that they are aware of potential findings and have the opportunity to review the issues and consider possible corrective actions. Throughout the audit, OAS auditors should solicit, consider, and respond to management's concerns and comments about potential findings and recommendations.

2.   Resolving Findings and Recommendations. OAS auditors should attempt to resolve all audit issues with management before the final report is issued. The audit will be considered to be resolved if management accepts the auditors' recommendations or the auditors accept management's proposed alternative actions. The OIG's draft report provides management with written findings and recommendations and solicits written comments from management. In addition, OAS auditors will usually hold an exit conference with management to discuss the findings, recommendations, and management's response. The Department's policy and procedures for responding to a draft report are described in Department Order 221.3, *Establishment of Management Decisions on Office of Inspector General Reports*. According to the Order, management will provide written comments to the OIG within 15 working days of issuance of the draft OIG reports. Management is encouraged to limit those comments to no more than two pages. Comments should indicate whether management agrees that the findings are factual and accurately reported, and whether management concurs or non-concurs with the findings and recommendations. Concurrences will include a statement of actual or planned corrective actions to be taken and estimated completion dates. If management does not concur with the findings and recommendations in the audit report, it will explain

why, present additional facts if necessary, and propose alternative corrective action.

3.   Final Report Transmittal. If the audit has been resolved, the memorandum transmitting the final report will state that a Management Decision is not required. However, if management does not concur with the audit's recommendations, the memorandum transmitting the final report will identify the unresolved recommendations and state that a Management Decision is required.

4.   Unresolved Issues. The Department's policies and procedures for recommendations for which a Management Decision is required are described in Department Order 221.3, *Establishment of Management Decisions on Office of Inspector General Reports*. According to Order 221.3, the Director, Office of Internal Review or the NNSA Office of Business Operations (as applicable) will submit the final management decision to the Secretary or a designee for approval and finalization. The Order also provides a procedure for the OIG to review the management decision before it is finalized and request that major audit issues still unresolved after the management decision process go to the Departmental Internal Control and Audit Resolution Council (DICARC). Auditors should refer to the latest version of Order 221.3 for details of the current audit resolution process.

C.   ***TRACKING AND REVIEWING CORRECTIVE ACTIONS***

The Department tracks and reports on the status of corrective actions that were planned and taken in response to OIG audit reports. In addition, the OIG is required to comment quarterly on the status of corrective actions.

1.   DARTS. Department Order 224.3, *Audit Resolution and Follow-Up Program*, authorized a formal follow-up system for audit and inspection reports issued by the OIG. This system, the Departmental Audit Reporting & Tracking System (DARTS), is maintained by the Department's Office of Internal Review, Audit Liaison Team. After the OAS and management have agreed upon the corrective actions to be taken, management's action plan documenting those actions will form the basis for tracking audit recommendations in DARTS and all follow-up reporting. The OAS should require management and the Audit Liaison Team to track all recommendations with uncompleted corrective actions. The OIG's memorandum transmitting a final report will state whether the recommendations should be tracked in DARTS. At the end of each quarter, Department management updates in DARTS the status of corrective actions by comparing the status of actions on audit recommendations against the agreed upon action plan.

2.   Commenting on DARTS. Department Order 224.3 requires the OIG to review quarterly the status of planned corrective actions as described in DARTS and to notify the CFO of concerns or disagreements with the status of corrective actions planned or taken. OAPA coordinates the process for the OAS. After the end of each quarter, OAPA will notify the AIG, DDs, ADs, and TLs concerning the audits for which they need to provide comments on the status of corrective actions. The responsible AIGs or DDs will ensure that corrective actions for each audit were reviewed and provide comments to the

OAPA. For each recommendation, the comments should indicate whether (1) the actions, as described by management in DARTS, are in conformance with the agreed upon action plan and acceptable, and (2) the recommendation can be closed in DARTS if management asserts that actions have been completed. The AIG and DDs are not required to ascertain that management has actually performed the completed action or that the completed action corrected the reported deficiency. Those determinations will be made during follow-up reviews at a later time.

OAPA reviews the comments received from the AIG and DDs and resolves any differences of opinion as required. OAPA inputs the OIG's quarterly comments into DARTS. After comments have been added to DARTS, OAPA prepares a memorandum on the DARTS reports for signature by the AIG and transmittal to the Office of Internal Review.

D. *FOLLOW-UP OF PRIOR AUDITS*

It is OAS policy that recommendations contained in prior reports (IG or other) shall be followed up on when subsequent audits are performed. In addition, the OIG performs audits to determine whether corrective actions have been implemented.

1. Prior Audit Findings. Department management is primarily responsible for directing action and following-up on audit recommendations. However, GAGAS require auditors to follow up on findings and recommendations from previous audits that are relevant to current audits. For example, for performance audits, GAGAS require the auditor to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits that are significant within the context of the audit objectives. Likewise, for financial statement audits, GAGAS require auditors to evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous audits that could have a material impact on the financial statements. When planning an audit, the auditor should ask management of the audited entity to identify previous audits that relate to the objectives of the audit and whether recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work and the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

2. Follow-up Audits. The OIG conducts follow-up audits especially of those matters of a critical or sensitive nature. Department Order 221.3 requires the OIG to conducts follow-up reviews of selected audit reports to verify that corrective actions have been completed and are effective. If a follow-up audit of more than 10 days duration is required, a Planned Audit Profile shall be properly prepared and approved. Departmental Orders and OMB Circulars also require that the OIG perform periodic reviews of the Department's follow-up system to evaluate whether it is adequate and results in timely and proper resolution of findings and recommendations. The Financial and Corporate Audits Division is responsible for periodically performing this review.

CHAPTER 10

CONDUCTING THE PERFORMANCE AUDIT

A.   *SCOPE OF CHAPTER*

This chapter details policies and procedures to be followed in conducting and supervising performance audits. Although the guidance is geared specifically to performance audits, it has general applicability to all types of audits. Management Alerts are also discussed in this chapter.

B.   *INITIATING AN AUDIT*

Specific steps required to start an audit include (1) ensuring that a Planned Audit Profile (Profile) has been submitted and approved; (2) inputting the necessary job-related information to EIGPT; (3) assigning audit staff; (4) sending a "Letter of Notification" to the auditee; (5) ensuring that an audit program has been developed and approved for the assignment; and, (6) holding a formal entrance conference.

1.   Submitting Planned Audit Profiles. With the exception of certain recurring audits described in Chapter 5, section C.1, assignments should not begin until a Profile has been submitted and approved by Headquarters. The format for preparing Profiles is illustrated in Chapter 5. Profiles are submitted to Headquarters as part of the annual planning process. Profiles approved at the annual Executives Planning meeting are assigned a project number by OAPA with notification to audit groups. When an audit is ready to start, the profile should be reviewed by the responsible division to determine if updating is required.

2.   EIGPT Responsibilities. The EIGPT system is the primary management tool for tracking the progress of audits. Therefore, it is essential that information entered into EIGPT is accurate and current. When profiles are approved, OAPA is responsible for adding the audit to EIGPT. At that point, staff can begin charging time to the job code. Each AIC or TL is responsible for entering all additional information into EIGPT. For example, when notice is received that an audit has been approved, the AIC should enter additional information required on the "Start" (ISD) screen, the "Audit Objective" (IOB) screen, and the "Functions and Objectives" (IAT) screen. Exhibit A describes responsibilities for maintaining EIGPT throughout an audit and provides instructions for accessing the audit tracking reports available through the system.

3.   Assigning Staff. AIG/DDs are responsible for ensuring that an adequate number of staff with appropriate experience, skills, and knowledge for the job is assigned to each audit. When appropriate, because of geographical location, this responsibility can be delegated to an AD or TL.

For audits involving the review of general and application controls in computer-based systems, obtaining access to information already on a computer, standardized data collection techniques, or statistical sampling, the audit team should coordinate these activities in advance with TAG to ensure that the staff has adequate knowledge, skills, and abilities to utilize such techniques and follow approved practices. If staff with the necessary experience or skills is not available, the team should consider requesting, through their AD and DD, assistance from audit services

contractors or consultants. See Chapter 7 for more detailed guidelines on computer-related audits and the use of quantitative techniques.

      4.   Notification Letter. AIG/DDs are responsible for sending a "Letter of Notification" to an auditee (this responsibility may be delegated to an AD or TL). Normally, the notification letter is sent no later than 10 days before the entrance conference and the initiation of audit work. The letter should state the general purpose of the audit and the scope of planned work. See Exhibit B for a sample notification letter.

      5.   Audit Program. As one of their first tasks on an assignment, the AIC is responsible for ensuring that the survey or audit program has been developed and approved to address the specific audit objectives. Before auditors start fieldwork, the survey program must be approved by the TL and AD. Before auditors start work on the verification phase, the audit program must be approved by the TL and AD. These approvals must be documented in the TeamMate audit file.

      a.   Type of Audit Work Needed. In most cases, a survey is needed to determine the existence of potential findings followed by the verification phase to further develop and verify the findings. In other cases, potential findings may have already been identified and sufficient information exists for auditors to proceed directly into audit verification.

      (1)   Survey Work. A survey is intended to be a process for quickly gathering information, without detailed verification, on an auditee's programs, activities, and functions. This information is assembled and analyzed to determine if potential findings exist and to write detailed audit steps if necessary. Section D provides detailed procedures for performing survey work.

      (2)   Audit Verification. If the survey has identified potential adverse conditions and findings and the DD or AIG has approved the "Go" decision, the audit will continue to the verification phase. For some audits, auditors may be able to proceed directly to detailed verification steps where potential findings have already been identified and sufficient information exists for the auditors to determine the nature and extent of additional audit work needed to fully develop findings. Section E provides detailed procedures for performing audit verification work.

      b.   Audit Program Content. Audit programs will differ depending on the audit objective, the type of audit being conducted, and the materiality or significance of expected findings. However, audit programs for both survey and verification work should include the following information:

      (1)   Background. Information should be provided about the organization, program, activity, or function to be audited. This information should include the purposes, goals, activities, or plans for the area or issue to be studied.

      (2)   Objective and Scope. The objective and scope of the audit must be clearly stated or described. The general objective or overall purpose of an audit usually relates to an activity's primary function or mission. More detailed sub-objectives are usually needed to describe specific areas that will be emphasized during the audit. The nature and scope of work planned in order to reach conclusions on the stated objectives should also be described.

(3)   Methodology. The audit program should lay out suggested steps and procedures for developing and supporting all elements of a finding: condition, criteria, cause, and effect. Audit steps should be focused and require the auditor to determine the answer to a specific audit question.

(4)   Definition of Terms. The audit program should define or explain any known unique terms used by the audited entity.

(5)   Special Instructions or Responsibilities. The audit program should identify specific staff responsibilities for the audit, particularly if it involves work at multiple locations.

c.   Survey Program. Prior to starting work, TLs and ADs are responsible for reviewing and approving survey programs and any subsequent changes to ensure that the planned scope and methodology will satisfy the stated audit objectives and will be performed in accordance with GAGAS and OAS policies and procedures. A sample or proforma survey program is shown in Exhibit C. This Exhibit shows the items that should be considered and included when the audit is structured in TeamMate. Actual programs generated by the TeamMate report function will differ in appearance from the Exhibit.

6.   Entrance Conference. A formal entrance conference should be held for all audits. An entrance conference is the initial conference held at or near the beginning of the audit with the highest management level of the entity audited. The primary purposes of an entrance conference are to acquaint the auditee with audit objective and approach, obtain auditee management's suggestions for areas needing audit coverage or emphasis, and logistical information for conducting the audit such as points of contacts, space, and office working hours.

a.   Planning for Conferences. The manner in which an entrance conference will be conducted and the scope of the subject matter to be discussed will be determined by the AIG, DD, or their designee. Arrangements for an entrance conference should be made soon after an audit is scheduled. Normally, the "Letter of Notification" should refer to the need to schedule an entrance conference, recommend a date and time for the conference, or refer to an entrance conference already scheduled. Detailed planning for the entrance conference depends on the objectives of the audit, familiarity of the auditee representatives with the OAS mission and operations, position or level of auditee representatives attending, significance of the audit, and the known desires of Department officials.

b.   DIGAS Representation. OAS senior management is responsible for deciding the number and level of audit staff that will attend an entrance conference. The knowledge and roles of OAS staff, level of representation by the organization being audited, relative significance of the organization, and other similar factors must be considered. The AIC and TL should normally attend the entrance conference. Representation by senior OAS officials may be desirable at some entrance conferences, such as conferences involving Department Headquarters personnel, depending on the relative importance and scope of the audit, as well as relationships with and level of Department officials attending the conference.

c.   Conducting the Entrance Conference. The agenda for an entrance conference should be carefully tailored to the requirements of the specific audit and should consider the following:

- Opening remarks, including introduction of OAS audit staff present;

- A brief overview of OAS's mission and organization and types of audits performed;

- A description of the specific audit objective, scope, and methodology;

- Solicitation of management comments regarding significant aspects of the organization, operations, and procedures, with particular emphasis on management initiatives underway such as major reorganization or significant changes in mission or problems affecting the auditee's operations such as funding restrictions or personnel shortages that could affect the audit;

- Explanation of the reporting procedures to be used;

- Designation by management of primary points of contact or liaison personnel during the audit; and,

- Advising auditee management about the availability of the AIC to apprise management of the progress of the audit and of the tentative audit conclusions being developed.

d.   Record of Entrance Conference. The AIC or other designated person will prepare a memorandum summarizing the highlights of the entrance conference. This memorandum will be made part of the TeamMate audit file and includes the names and organizations of all persons attending the conference, any commitments or decisions made, and summarizes the conference results.

C.   *AUDIT TIMELINESS*

To ensure that audit reports are issued timely and are useful to management, all audits should be completed within specified time frames. In planning and conducting audits, the number of elapsed days should generally not exceed 365. Significant milestones include:

1.   Entrance Conference. Although audit planning may begin well in advance of an entrance conference, this date should be used to mark the official start an audit. No more than 10 percent of total planned staff days should be expended before the entrance conference.

2.   Survey Completion. At the end of the survey, usually 75-90 days from the entrance conference, the audit team will brief the AD. If the meeting results in a "No-Go" decision, the team will either prepare a letter report or a termination letter. For all "Go" decisions, the team will prepare an End of Survey (EOS) Outline which will be sent to the DD and AIG for review and comment. The EOS Outline will include sufficient information to show that, at a minimum, the criteria was fully developed with concrete examples to demonstrate that an adverse condition exists. All other elements of a finding will either be actual or hypothetical (when not fully developed) and will also discuss the steps that the team plans to conduct during the verification phase of the audit. The outline should be presented in the format shown in Appendix E and include the timeframes for completing the audit. The EOS Outline will be approved by Division management and/or the AIG.

3.	Issue Draft. A referenced draft report will be issued upon completion of fieldwork to the Department program management. The OAS Report Style Manual discusses guidance on draft reports with a sample draft report included.

4.	Exit Conference. Department management will be contacted to schedule an exit conference. The exit conference should generally occur within 5 working days of providing management with a working copy final report, including management comments, approved by the responsible AIG. If management is unwilling to cooperate in scheduling an exit conference, inform the action official that we will issue the report, noting in it that management declined the opportunity to meet with us. There may be situations where management reviews the working copy final report and offers additional significant information. If this occurs, the AIG or the DIGAS may decide to reissue the draft report and hold another exit conference. See E.5.c for further discussion of the formal exit conference.

5.	Issue Final Report. Any additional comments received at the exit conference should be analyzed and incorporated into the final report, if needed. The final report package should be prepared and the report distributed to the appropriate recipients.

6.	Unusual Circumstances. For audits that involve rare, unusual circumstances, the AIG may waive certain policy and procedural requirements in initiating and conducting an audit, developing audit findings, and processing the audit report. These unusual circumstances will not circumvent any auditing standards. The written waiver will fully support reasons for significant deviations and become part of the TeamMate audit file. A copy of the waiver will be provided to the DIGAS

## D.	*PERFORMING SURVEY WORK*

In most cases, the audit team will need to perform an audit survey in order to identify potential findings and to prepare detailed audit verification steps. Surveys are intended to be a process for gathering information on an auditee's programs, activities, and functions for the purpose of identifying findings within the overall objective of the audit. Survey work should normally be completed within 75 to 90 days. A survey may not be needed on audits where a "GO" decision has already been made, such as financial statement audits, SCIC audits, or audits required by statute, regulation, or due to special requests. In such cases, the audit program should be designed to enable the auditors to proceed directly to detailed audit verification steps. Detailed procedures for performing survey work are provided below.

1.	Initiating Work at Subordinate Activities. In additional to the formal entrance conference described in B.6, the AIC should arrange for a "kick-off" meeting at each subordinate activity level of the organization prior to commencing audit work in the area. The principal purposes of such a meeting are to:

- Introduce OAS audit staff to responsible activity personnel;

- Explain the planned scope of work to be performed;

- Initiate discussions on significant aspects of the activity's operations;

- Explain how the results of audit work will be reported to the activity; and,

- If appropriate, request a briefing on activity operations and/or a tour of the activity.

2. Understanding the Surveyed Activity. A survey is intended to enable auditors to obtain information about the key systems and procedures used by an organization for managing its operations and financial activities and for evaluating and reporting its performance. Auditors should also obtain information about the size and scope of the auditee's activities as well as areas in which there may be internal control weaknesses, non-existent or poorly defined performance measures, uneconomical or inefficient operations, lack of effective goal achievement, or lack of compliance with laws and regulations. It is OAS policy to include in the survey sufficient steps to evaluate the presence and quality of performance measures and reported accomplishments. The Department has strived to incorporate goals and performance measures in its management, operating, and facility contracts that comprise the bulk of the Department's work. Auditors should acquaint themselves with the goals and performance measures that have been established for the areas being surveyed. In addition, goals and performance measures have or are being developed at Department Headquarters to measure mission accomplishment. These goals and measures are passed down to field activities that are then required to report on their individual progress in meeting the established goals. Auditors need to acquaint themselves with the Headquarters program goals and performance measures that impact the audited activity. In addition, the lack of such measures, poorly drafted measures, or inadequate data accumulation systems may represent the cause(s) of adverse conditions.

a. Survey Objective. The survey objective will normally be to gather and analyze data to determine if potential findings exist and to decide whether a detailed review of a specific area is warranted. To make this type of decision, the survey should consider significance of potential findings, audit resources needed to verify and develop the findings, and whether the audit will be applying scarce auditing resources where they will do the most good. Although a survey program may not contain all detailed audit steps, it should contain the same basic structure as the audit program. As an audit progresses, the program should be reviewed and refined, as appropriate, in order to update the objectives and to develop detailed verification steps.

b. Survey Methodologies. Common methods of obtaining evidence during a survey include the following:

(1) Physical Inspections. In most cases, on-site observations are indispensable in helping the auditor to gain a quick working knowledge of an organization's operations and environment.

(2) Discussions with Officials and Employees. Various levels of officials and employees within an organization should be contacted to obtain an understanding of their responsibilities and methods of operations. They should be specifically asked about areas that are troublesome or that concern them, even when they lack complete information.

(3) Interviews with Others. Auditors may find it useful to interview concerned or knowledgeable persons outside the organization to obtain indications of weaknesses and areas of concern.

(4)   Use of Questionnaires. Because numerous interviews could be costly and time consuming, auditors may want to consider the use of questionnaires in selected instances.

(5)   Reviews of Documentation. Auditors should obtain and review the same information that is available to management for its use. If expected information is not available, the auditor should ask how operations are controlled in the absence of that information. Areas normally worth pursuing include the following:

- Legislation, regulations, executive orders, court decisions, industry standards, and other criteria affecting the auditee's operations;

- Contracts and related contractual documents, mission or function statements, goals, performance measures, objectives, and expectations;

- Standard operating procedures and other written material that documents the auditee's normal operating procedures and critical internal controls;

- Reading files, chronological files, and organization minutes that document management's current activities and concerns;

- Management reports (e.g., budgets, operating statements, cost reports, exception reports, etc.) for making comparisons, highlighting variances, and understanding how the organization is managed;

- Prior studies and audit reports that may provide ideas on problem areas within the organization; and,

- Legislative histories, hearings, and proposed legislation that may identify potential problem areas.

(6)   Transaction Testing. Tracing or "walking-through" a few specific work activities from beginning to end may provide useful insights into the organization's operations. However, such testing may be time consuming. Once a weakness is identified, tests to determine the significance or extent of a problem would normally be conducted as part of the audit steps in the verification phase.

(7)   Flow Charts. Auditors may find it useful to obtain or prepare flow charts that graphically portray the flow of work and related management control structures.

c.   Documenting Work Performed. Auditors are to ensure that the audit documentation contains sufficient data to support any judgments or conclusions to be made based on survey results. However, auditors are also expected to use their judgment in terminating work in areas where there appear to be strong internal controls, little risk of noncompliance, or limited opportunity to identify improved economies or efficiencies. More detailed requirements for audit documentation are provided in Chapter 6.

3.   Identifying Potential Findings. During a survey, auditors must continually evaluate information obtained to ensure that they are accomplishing survey objectives, identifying potential findings, and determining the nature and extent of additional audit work needed. In general, this can be accomplished by identifying and developing as many attributes of a finding as possible, comparing the condition with the criteria, looking for reasons for the deviation between the condition and criteria, and assessing the potential significance of a finding.

4.   Attributes of a Finding. It is important for auditors and supervisors to be consistent in how they evaluate survey information. Therefore, the support for potential findings should be developed in terms of the finding attributes. An analysis of the findings according to the following attributes will usually bring to light any basic problems in developing and organizing audit findings. It will also assist in determining whether all pertinent information was obtained. Auditors may either use the TeamMate exception feature or the format provided in Exhibit D for developing a finding.

a.   Condition. By definition, a condition ("what is") differs from the criteria ("what should be"). It tells the reader what was found through factual statements. Most audit findings originate with comparisons of "what is" (condition) with "what should be" (criteria). When a difference is identified between the two, auditors have taken the first step in identifying an adverse condition. On the other hand, no difference between the condition and the criteria (no adverse condition) could be a valid conclusion for the audit objective.   Specific examples and concrete details concerning an adverse condition are needed in order to convince a skeptical manager. Emphasis should be placed on discussing accepted management practices and procedures that were either not employed or were not operating properly.

b.   Criteria. Criteria are the standard for measuring performance or the goals to be achieved. Examples are laws, regulations, orders, directives, goals, mission objectives, policies, procedures, management principles, and good business practices.

c.   Cause. Cause describes how or why the condition came about and is the reason for the difference between what is and what should be (why the condition happened). Each finding must include the underlying root causes of the conditions reported. Establishing cause and effect relationships is often the most difficult part of an audit, but is essential in order to identify the basic weakness that allowed a deviation to occur and to design a constructive recommendation. For example, the auditor should determine if the cause relates to (1) lack of procedures or management controls; (2) failure to follow or misinterpretation of established procedures or controls; (3) other reasons such as organizational conflicts or resource shortages. Speculative causes that cannot be supported by sufficient, appropriate evidence should not be reported.

d.   Effect. Effect tells what resulted from the condition, or "so what", and its significance. Auditors must demonstrate whether an adverse condition found is an isolated example or widespread and the rate or frequency of occurrence. The attention that a finding gets depends largely on its significance, as judged by effect. Where possible, the effect should be expressed in quantitative terms (dollars, units of production, resources, etc.) Examples include unnecessary expenditures, duplication of effort, and use of funds that could be better spent. Intangible effects, such as lowered morale, may also be significant. However, if the actual effect cannot be determined, comments should be made on the potential effect.

    e. Recommendation. . Recommendations describe the actions that should be taken to resolve an adverse condition and should include the timeframe and the responsible party or parties. Recommendations in all audit reports should address the underlying root causes of the adverse condition. Also, recommendations should logically flow from the causes identified in the finding. Each cause should be addressed in one or more recommendations. Recommendations may also address needed action such as recovering unallowable costs.

   5. Coordinating with Investigations and Inspections. Auditors are required to coordinate with the Office of Investigations and Inspections at the start and end of the survey, as well as at the end of the audit (see Chapter 4 for coordinating procedures).

   6. Reporting Survey Results. At the completion of a survey, the auditor should have gained enough knowledge to clearly identify important issues and problem areas and to decide if and where further audit work is needed. When in-depth work still remains to be done, the auditor should have an idea of what he or she expects to report. Enough information should also have been gathered to allow a detailed audit program to be prepared for conducting audit verification work.

    a. Survey Summaries. Generally, formal survey reports will not be required on each survey. However, the AIC is responsible for ensuring that survey work has been appropriately documented, summarized, and cross-indexed in accordance with the procedures provided in Chapter 6 on audit documentation support.

    b. End of Survey Outline. At the end of the survey, the audit team should have sufficient information to support a decision to either (1) terminate fieldwork and report on information already obtained; or, (2) justify the investment of additional resources in order to develop potential findings. The results of this decision will be reflected in an EOS Outline. If a condition has been developed and the audit is to continue, the outline should describe the audit objective (revised if necessary), describe the adverse condition, including concrete examples, and the other elements of the finding (either known or a hypothesis). The outline should also indicate a current planned completion date and the total number of staff days that will be required for the audit. When the EOS Outline has been approved by the AIG, an "Actual Survey Completion" date should be entered in EIGPT to show that the audit has progressed to the verification phase.

     (1) Audit Program. A detailed audit program must be prepared that provides the detailed steps for additional audit work that needs to be done to develop and verify a finding or otherwise finalize an audit. The audit program must be reviewed and approved by the TL and AD before the verification work begins.

     (2) Refining the Audit Objective. The objective in the EOS Outline need not be precisely the same as the one identified in the Profile. Work performed during the survey may have resulted in a refinement of the objective. Differences, however, must be clearly explained and justified in the EOS Outline, approved by the AIG, and conveyed to the auditee. Any change in objective should be entered at the "Objectives" screen in EIGPT.

     (3) Go/No-Go Decisions. The EOS Outline is initially approved by the AD and forwarded to the DD and AIG for review and approval.

(4)   Responsibilities. As noted above, the AIG and DD will determine if an audit is to continue. The audit team will enter the "Actual Survey Completion Date" and other planned or revised milestone dates into EIGPT as well as updating the "Objectives" and "History" screens as appropriate. The Division will send a copy of the approved EOS Outline to the OAS, which is responsible for ensuring that the planning screen in EIGPT is updated.

c.   Audits Not Continuing to the Verification Stage. If the survey has not identified an adverse condition with a potential finding and a "No Go" decision is made, a letter report may be issued or the audit may be terminated. The AIG and DD will decide whether issuing a letter report would be appropriate. The letter report would summarize the results of work conducted and the conclusions reached. See OAS's Report Style Manual for detailed guidance on preparing a letter report. If sufficient audit work has not been performed to support a letter report, the audit should be terminated. Written notice of this decision will be provided to the auditee and other appropriate officials by the same level of OIG management that signed the Letter of Notification. In addition, the AIC (with the concurrence of the TL and the AD) is to prepare a memorandum for the record that summarizes the results of work conducted and explain why the audit was terminated. The AIC is responsible for updating EIGPT. If a letter report is issued, the report date and required report information should be entered on the milestone screen. If the audit has been terminated, the termination date should be entered in the "Actual Completed" field, and the "R" that appears in the "How Closed" field should be overwritten with a "T". In both cases, "History" remarks should be added as appropriate.

E.   *PERFORMING VERIFICATION WORK*

During the audit verification phase, the audit team is responsible for collecting, analyzing, interpreting, and documenting such information as necessary to accomplish the audit objectives and to support the audit results. During this phase, the audit team ensures that (1) the attributes of a finding are fully developed; (2) all audit assumptions have been tested and proved or discarded; (3) the TeamMate audit file contains sufficient evidence to support findings and conclusions; (4) the TeamMate audit file is reviewed by the AIC and other supervisors in a timely manner; (5) supervisory review notes are cleared; and, (6) initial management comments are obtained. In general, audits involving detailed verification steps will result in a written audit report.

1.   Audit Timeframes. In planning and performing audit verification work, auditors and supervisors need to keep in mind that audits should generally not exceed 365 elapsed days.

2.   Meet with Auditee. If survey work was conducted, the audit team should meet with the auditee to discuss survey results and the scope of additional planned audit work before proceeding with further fieldwork. If no survey work was conducted, then the formal entrance conference will satisfy this requirement. If the audit objective was refined, refocused, or restated in the End of Survey Decision Outline and was, therefore, different from the initial survey objective, the audit team should inform management of the revised objective at this time.

3.   Conduct Detailed Verification Steps. Planned audit steps need to be translated into tasks or work segments that can be assigned to and carried out by individual staff members. As test and verification procedures are conducted, the audit team must ensure that: evidence

obtained is sufficient, appropriate, and reliable; findings and conclusions are based on an objective evaluation of all pertinent facts; and, the audit has been conducted in accordance with GAGAS and OAS policies and procedures.

    a.   <u>Execute Audit Program</u>. Each audit is to be conducted in accordance with an approved audit program. (See Section B and the TeamMate Protocol for further guidance on creating audit programs.) The audit program should serve as a guide for ensuring that the audit is performed in an efficient and effective manner. Audit programs are to be followed, unless significant deviations are justified by the AIC and authorized by the same supervisory levels that approved the original audit program. This requirement also applies to work planned, but not completed. However, auditors should not blindly follow an audit program if the prescribed objective and audit steps are not resulting in reportable findings or do not otherwise seem to be compatible with actual audit findings. Instead, auditors are responsible for using their own initiative to suggest eliminating, refining, or adding audit steps to more effectively and efficiently meet the audit objectives.

    (1)   <u>Using Data from Computer-based Systems</u>. Auditors are responsible for following the guidance in Chapter 7 to ensure the reliability of data obtained from computer-based systems.

    (2)   <u>Using Advanced Audit Techniques</u>. If computer-assisted, statistical sampling, or other advanced audit techniques are used, auditors are responsible for following the guidance in Chapter 7.

    (3)   <u>Internal Controls</u>. As discussed in Chapter 5, the need to assess internal controls and the focus of that assessment vary with audit objectives and the type of audit. However, the basic purpose for evaluating internal controls is to determine the extent to which existing controls can be relied on in planning and conducting audit verification steps. For internal control that is significant within the context of the audit objectives, the auditor should obtain an understanding, assess control design and implementation, obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls, and modify audit procedures based on the assessment of internal control.

    (4)   <u>Fraud, Abuse, and Illegal Acts</u>. Auditors are generally not responsible for investigating fraud or other illegal acts. However, in planning, auditors should assess the risk of fraud occurring that is significant in the context of the audit objectives. If factors or risks are identified that indicate fraud has or is likely to occur that is significant in the context of the audit objective, auditors should design procedures to provide reasonable assurance of detecting such fraud.   If indications of possible illegal acts do come to their attention, the procedures established in Chapter 4 will be followed.

    b.   <u>Document Work Performed</u>. The AIC is responsible for ensuring that audit work is performed in accordance with the audit program and that audit documentation is obtained and prepared in accordance with the policies and procedures established in Chapter 6 and the current TeamMate protocol. The audit team should ensure that it has documented all major decisions and milestones for the audit.

    c.   <u>Analyze and Summarize Audit Evidence</u>. As test and verification procedures are carried out, the audit team must ensure that the evidence obtained is sufficient, appropriate, and reliable. The findings and conclusions must be based on an objective evaluation

of all pertinent facts, and the results of this evaluation or analysis must be documented in the TeamMate audit file. Auditors must also document how generally accepted government auditing standards were met and cite any standards that may not have been followed. In addition to addressing the specific audit objectives, particular attention should be paid to analyzing and summarizing the data needed to address other audit requirements. For example, the TeamMate audit file should contain summaries showing the auditors' analysis and evaluation of (1) internal controls; (2) compliance with laws and regulations, including indications or instances of illegal acts; and, (3) issues needing further study and consideration.

        d.   <u>Coordinate with Investigations</u>. Auditors are required to coordinate with the Office of Investigations and the Office of Inspections and Special Inquiries at the beginning of the survey, at the end of the survey, and at the end of the audit. Where no survey is required, this coordination should be accomplished at the beginning and at the end of the audit as discussed in Chapter 4.

        e.   <u>Audit Suspension</u>. AIGs, DDs, or ADs may suspend an audit during the verification phase if audit work is going to be stopped for at least 2 weeks. Examples of appropriate justification for suspending audit work include higher priority audit work or unavailability of auditor personnel, records, or auditee personnel. OAPA should be notified when an audit needs to be suspended. EIGPT shall be used to record a suspension and restart of an audit, along with the justification for the suspension. An appropriate justification for suspension must be maintained in the TeamMate audit file.

      4.   <u>Develop Findings, Conclusions and Recommendations.</u> It is OAS policy to develop and staff findings and obtain management comments as early as possible during an audit. Potential findings, conclusions and recommendations should be discussed with the auditee as the attributes of a finding are being developed and before fieldwork is completed. (TeamMate includes a function that assists in the development of findings. Although not specifically required, auditors may use the "exceptions" function in TeamMate to document audit findings.) All attributes of each finding should be fully developed. See section D.4 for a discussion of finding attributes.

      5.   <u>Discuss Findings with Auditee</u>. It is OAS policy to fully discuss an audit's findings, conclusions, and recommendations with officials of the organizations or activities being audited and to provide them with ample opportunity to comment on the factual content and planned corrective actions. This should be done through periodic meetings with management, at local activity exit conferences, and at formal exit conferences.

        a.   <u>Periodic Meetings with Management</u>. Auditors are encouraged to have frequent communication with management during the audit. Informal meetings should be held with key personnel at the operating level to discuss audit conclusions, proposed findings, and recommendations. The AIC should provide the participants an opportunity to read a copy of the audit conclusions and any draft findings in order to identify and correct any misstatements of fact. The AIC must make every effort to resolve any questions that arise about the accuracy of facts used to support conclusions drawn and potential findings. Potential recommendations, if determined at this time, should also be discussed.

        b.   <u>Local Activity Exit Conferences</u>. At the conclusion of audit fieldwork at each site or activity, the audit staff shall generally hold a conference with key personnel in the

activity to discuss the audit results. At these discussions, the auditors should obtain management views on audit conclusions, findings, any potential monetary impact of the findings, and proposed recommendations, if recommendations are addressed to the activity.

        c.   <u>Formal Exit Conference</u>. An exit conference should be held at the completion of the audit to discuss the audit results and give management an opportunity to provide any additional comments on the audit report and any additional facts that could influence the manner in which the final audit report is presented.

        (1)   <u>Timing of Conference</u>. A formal exit conference normally should be held after the draft report has been issued and management comments have been incorporated into the final report. The exit conference should generally occur within 5 working days of providing management with a working copy final report, including management comments, approved by the responsible AIG. See C.4 if management is unwilling to cooperate in scheduling an exit conference.

        (2)   <u>Auditee Representation</u>. The conference should be held with the highest management level of the entity audited. Normally, this will include the highest-level official to whom recommendations are directed or his or her designees.

        (3)   <u>OAS Attendees</u>. OAS representation will normally include the TL and the AIC, and may include the DD or AD. Other audit staff should attend if needed to address specific segments of the audit. Headquarters representation is required or desirable for some audits, e.g., at conferences involving high-level Departmental officials, major multi-location audits, or particularly complex, technical, or controversial audits.

        (4)   <u>Record of Exit Conference</u>. The AIC, TL, or designee will document the results of the exit conference by summarizing the highlights. This summary will be recorded in TeamMate and will include the names and organizations of all persons attending the conference, disclose any commitments or decisions made, and otherwise summarize the conference results.

F.   *MANAGEMENT ALERTS*

Management Alerts are used to inform Department managers and officials of matters requiring urgent attention. Normally, Management Alerts are not to be distributed outside the Department. They should be limited to exceptional cases of immediate urgency so as not to diminish the impact of this reporting mechanism. Management Alerts will only be issued by the responsible AIG.

Because a Management Alert is an interim communication to the Department, it will normally be follow up by an audit report. The usual method for subsequent reporting of the matters that generated the Management Alert will be a Blue or Management Control report. The subsequent report's Findings and Recommendations section will comment on the actions taken by management subsequent to the Management Alert. In some instances, changed circumstances or new facts submitted by management will affect the need for further reporting. As a minimum, however, a letter report will be issued closing the matter.

       1.   <u>Transmittal Memoranda</u>. Transmittal memoranda for Management Alerts are sent to the Department official responsible for the audited activity (see the OAS Report Style Manual).

       2.   <u>Format</u>. As discussed in the OAS Report Style Manual, a Management Alert should include the (1) Introduction; (2) Background; (3) Observation; (4) Recommendations; and, (5) Request for Management Comments. Since a Management Alert normally precedes the completion of all of the audit verification steps, it should be noted that specific problems are reported as "observations" rather than as "audit findings." Additionally, a Management Alert is not bound in a report cover.

RESPONSIBILITIES FOR KEEPING EIGPTS CURRENT AND ACCURATE

The Auditor-In-Charge (AIC) or Technical Monitor (TM) for contractor performed audits has the primary responsibility for keeping the information in the Energy Inspector General Project Tracking System (EIGPT) current and accurate for each audit (project). This is accomplished as follows:

Both Headquarters and field elements of the OAS are responsible for entering selected information into the Audit module of the EIGPT, and to ensure that the information is current. Because reports run at Headquarters and in the Divisions depend on the accuracy of information in the system, it is imperative that it be kept current.

As discussed earlier in this chapter, the first stage of the audit process requires the field to submit a Planned Audit Profile to Headquarters for approval. Once Headquarters' approvals have been obtained, OAPA is responsible for assigning the audit number, entering the number along with data contained on the profile into the EIGPT, and notifying the appropriate division/audit group of the new number. At that point, staff can begin charging time to the audit.

When notice is received that an audit number has been assigned and added to the EIGPT, the TL orAIC should enter:

- All additional information required on the "Start" (ISD) screen;

- All additional information required on the "Milestone" tab;

- Information on the "Objective" tab; and,

- Information on the "Audit Tracking Code" (ATC/Location) tab.

The TL or AIC should continually monitor the status of audits, even if actual audit work has not begun, and revise the entrance conference, survey completion, and report milestone dates as appropriate. Since there is no limit to the number of times a milestone may be revised, all audits should be reviewed weekly, and updated as necessary. Keep the "revised" date column of the EIGPT current. The dates show what our latest expectations are as opposed to what is shown in the "End of Survey (EOS)" date column. This information, along with the remarks, is essential if audit management is to use the EIGPT to keep abreast of the status of the audits.

Once the audit begins, the AIC should enter the "Actual Milestone" dates as they occur. When an EOS Outline has been approved by the AIG and DD, the date of concurrence should be entered as the "Actual Survey Completion" date. A copy of the outline should be sent to OAPA so that the "Planned Report Completion Date" and the total number of "Planned Staff Days" can be updated.

For those audits not requiring an EOS Outline, but where additional staff days or elapsed days is needed, an e-mail message or a memorandum including the changes and the rationale for the changes should be sent to the responsible AIG. Changes in staff days or elapsed days should be requested as soon as the need becomes known and should generally be made within 60 calendar days of the audit's entrance conference.

Once the survey has been completed, planned milestone dates for issuing the draft report should be entered by the AIC. All "Actual" dates should be entered when the events occur. However, any revision to an "Actual Milestone Date" already entered into EIGPT can only be made by OAPA after receipt of a written request from the division (e-mail or memorandum) with an explanation of the requested change. All requests for changes to an "Actual Milestone Date" are subject to AIG approval.

Whenever a change occurs, information on the audit input screens should be updated. For instance, if the objective of the audit changes based on survey results, the information on the "Objective" tab should be adjusted accordingly, with a notation that the audit objective was revised at the EOS.

EIGPT provides a way of tracking audit events for future reference and keeping management advised of the status of the audits. When a significant event occurs in the audit, a remark should be entered in the "History" tab. At a minimum, remarks should be entered weekly describing the current status of the audit (progress; actual or anticipated problems; how the problems will be overcome; descriptions of results of special events of the week such as meetings, change in staffing, supervisory visits, decisions made, planned future events; etc.). Anyone in OAS may enter a remark in the "Audit History" screen for any audit.

If an audit is suspended, remarks should be entered every 2 weeks commenting on when to expect the audit to be reactivated, why the audit is remaining in suspense, and if appropriate what is being done to assure that the audit will be reactivated as soon as possible. When the audit is removed from suspense, the "revised" dates should be updated.

Once the draft report has been issued, the AIC must enter information into the "Findings" tab. This information may be changed if findings change subsequent to the issuance of the draft report. Upon issuance of the final audit report, the AIC or TL must enter summary information in the "Report Summary" tab, keywords associated with the audit in the "Indices" tab, information on monetary savings, information on the GPRA statement, etc.

It is also the responsibility of the TL to inform the AIG and OAPA when an audit needs to be terminated or cancelled. An audit should be terminated if either time has been charged or an "Actual" milestone has been entered. If neither has occurred, the audit should be canceled. Terminations and cancellations are done by entering a date in the "Completed" field of the "Milestone" tab. You will then be prompted to make an entry in the "How Completed" field. The default for this field is an "R" for Completed with a Report. You may overwrite the "R" with either a "C" for canceled or "T" for terminated.

<u>FORMAT FOR LETTER OF NOTIFICATION</u>
(USE MEMORANDUM PAPER)

DATE: Month XX, XXXX

REPLY TO
ATTN OF: IG-XX (Project Number)

SUBJECT: (Subject matter to be reviewed.)

TO: Department Official (Official in charge of entity or activity to be audited.)

      For NNSA audits, the addressee is:

      Director, NNSA Policy and Internal Controls Management, NA-66

The first paragraph should state that the Office of Audit Services (OAS) intends to conduct a survey or an audit of the subject area. A designation of a cognizant organization (a program or field office or other organization) that OAS anticipates will be primarily responsible for responding to the findings of the audit. The second paragraph states the general purpose of the audit.

A third paragraph should provide additional or more specific information about the planned survey or audit. For example, this paragraph could be used to inform the reader that the subject work is part of a larger OAS effort. It should also refer to the need for an entrance conference, recommend a date and time for such a meeting, or refer to an entrance conference already scheduled.

The final paragraph should identify the contractor, if any, performing the survey or audit work, and the OAS point of contact. The contact's telephone number should be listed, and the auditee should be invited to call if there are any questions concerning the survey or audit.

        (Signature)

        (NAME and TITLE),
        _____ Division
        Office of Inspector General

cc: (Departmental officials who should be made aware of the audit)
      (Specific Program officials who should be made aware of the audit)
      Director, Office of Internal Review, CF-1.2
      (Local) Audit Liaison

      There are no cc's for NNSA audits

SAMPLE SURVEY PROGRAM

This example survey program provides auditors with generic steps that are applicable to most Office of Audit Services (OAS) surveys. It is intended to assist audit teams in accomplishing survey goals within established timeframes, and to develop the End of Survey Outline. The sample survey provides a basic framework, but should not be used as a complete checklist. Auditors must exercise professional judgment in determining which steps, if any, do not apply to the assignment. Additional steps relating to the specific audit objective must, of course, be added.

Audit programs serve as the basis for organizing the Audit in TeamMate and will differ in appearance from this sample. The sample is provided only to convey the items that should be covered when the audit is structured in TeamMate. Many of the basic steps have been incorporated into the various audit templates distributed with TeamMate.

I.   INTRODUCTION AND BACKGROUND
      A.   Document the reasons for undertaking the audit.

      B.   Provide information adequate to place the audit in context (program objectives, budget, staffing levels, organization charts, controversy, significance, etc.).

II.   AUDIT OBJECTIVE
The objective should be written clearly, understandably, and specifically. The auditor should normally lift the objectives directly from the approved Planned Audit Profile. A clearly stated audit objective becomes critical when designing audit steps to (1) test for program effectiveness; (2) test operations for economy and efficiency; (3) test for compliance with laws and regulations; (4) detect potentially illegal acts; and, (5) review internal controls.

III.   SCOPE
      A.   Document the audit resources to be used in accomplishing audit objectives.

            1.   Planned start of audit (use date you plan to hold the official entrance conference) and elapsed days allowed for survey work.

            2.   Who is performing the audit?

                  a. OAS staff (names and regional/audit offices).

                  b. Contract audit staff.

            3.   Staff days available.

            4.   Locations to be visited.

      B.   Determine the time period, organizations, functions, accounts, documents, etc., to be covered in order to accomplish the audit objective. For example,

- Transactions during Fiscal Year (FY) 20XX to be randomly tested;

- Audit work to be conducted at all procurement offices that process more than 100 contracts per year or contracts with a combined value greater than $100 million;

- Field locations to be visited because they are experiencing major restructuring as a result of shifting programmatic priorities; or,

- Organizations outside the Department of Energy, such as regulatory agencies or other stakeholders that are involved in or are affected by Departmental programs, to obtain their views of program effectiveness.

IV.   AUDIT STEPS/METHODOLOGY

The following audit steps should be tailored to the specific audit objective, and additional audit steps added as needed.

A.   Background.

1.   Determine the program's objectives and the auditee's activities and functions relevant to the audit objective.

2.   Determine the auditee's organizational structure, through up-to-date organization charts, discussions, etc.

3.   Determine how relevant activities and systems interact and operate using outlines, flowcharts, transactions flows, etc.

4.   Identify key personnel.

5.   Determine the missions, functions, duties, etc., for each organizational element being audited.

6.   Determine the major databases maintained, recurring reports, and any special reports issued during the timeframe being reviewed. Determine the primary users of these databases, the recipients of the reports, and the expected use of and reliance on the reports.

7.   Determine the budget of the major programs supported by the auditee, as well as information on the number, recipient, dollar value, function, duration, location, and type of contracts awarded or managed, and total value of contract expenditures.

8.   Determine the applicable performance measures and standards established by management and/or by the operating contract.

9.   Determine the structure of the contract award fees connected with achievement of the performance goals.

10.   Determine the internal standard operating procedures used by the auditee.

11.   Determine what areas of recent management emphasis or new initiatives are expected to improve operations.

12.   Determine whether any external constraints or limitations affect the auditee's operations.

B.   Audit and Internal Review Follow-up.

1.   Determine whether any on-going or recently completed audits (last 5 years) or other studies performed by the following groups are related to the audit objective:

   a.   General Accountability Office (GAO).

   b.   Office of Inspector General (i.e., Audits, Inspections and Investigations).

   c.   Internal Auditors.

   d.   Federal Managers Financial Integrity Act Internal Control Review Teams.

   e.   Other audit/review groups (Defense Contract Audit Agency, State/local, etc.).

2.   Follow up on specific audit recommendations and determine the status of corrective actions.

C.   Criteria. Determine and document which provisions of laws, regulations, or other criteria are applicable to the auditee and relevant to the audit objectives.

   1.   Laws, statutes, U.S. Codes, Comptroller General decisions, etc.

   2.   Office of Management and Budget Circulars, Federal Acquisition Regulations, and other regulations.

   3.   Departmental Directives

   4.   Other standards and guidelines [e.g., American Institute of Certified Public Accountants' Statements on Auditing Standards (SASs), etc.]

   5.   Performance measures and standards established by management and/or required by the operating contract.

D.   Condition. Design specific audit steps necessary to develop an informed opinion about how the program or activity is functioning as it pertains to the audit objective. At a minimum, survey work should include the following:

   1.   Compliance with Applicable Laws and Regulations. (Also see SAS 53 and 54. Detailed guidance is also contained in the GAO publication "Assessing Compliance with Applicable Laws and Regulations.")

      a.   Determine how the applicable laws and regulations apply and are implemented by officials of the audited entity to gain a better understanding of their potential significance to the audit objective.

      b.   Design steps and procedures to test compliance to reasonably assure detection of intentional and non-intentional instances of noncompliance that are material or significant to the audit objective.

      •   Determine potential characteristics for this audit and the extent of work required to identify those characteristics.

- Prepare a workpaper describing any work performed and characteristics of illegal acts noted during the audit. (If any such acts are noted, see Chapters 4 of this Manual.)

2.   Internal Controls. (Also see Chapter 4 exhibit A of this Manual and SAS 55, as amended by SAS 78. Detailed guidance is also contained in the GAO publications "Assessing Internal Controls in Performance Audits" and "Assessing Compliance with Applicable Laws and Regulations.")

a.   Determine how the auditee's control environment is relevant to meeting the audit objective. In particular, assess:

- Management's philosophy and operating style.

- The auditee's methods of assigning authority and responsibility.

- Management's control methods for monitoring and following up on performance, including internal auditing.

- Personnel policies and practices.

- Any external influences that may have a bearing on internal controls.

b.   Determine how any portion of the auditee's accounting system is relevant to the audit objectives. In particular, assess:

- The effectiveness of the accounting system.

- Relevant activities and systems. Document using outlines, flowcharts, transactions flows, etc.

- The role of key personnel.

c.   Determine how the auditee's control procedures affect the activities and functions that are relevant to the audit objective. General standards for internal controls require (1) reasonable assurance that system objectives will be accomplished; (2) a supportive attitude by managers and employees towards internal controls; (3) competent personnel to accomplish assigned duties; (4) identification and development of control objectives; and, (5) efficient and effective control techniques for accomplishing the internal control objectives. Also, where relevant, determine the adequacy of controls for the following specific standards:

- Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

- Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.

- Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

- Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

- Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

- Access to and Accountability for Resources. Access to resources and records is to be limited to authorized personnel, and accountability for the custody and use of resources is to be assigned and maintained.

3. Performance Measures and Standards.

a. Determine performance measures and standards required by management and/or by the operating contract. If none exist or measures and standards are inadequate, this may indicate a lack of criteria as a potential cause of the negative condition(s).

b. Determine how the performance of the program or activity is measured against performance goals and standards.

c. Determine how reasonable performance goals and standards are by comparing them against existing external benchmarks (e.g., those of comparable industry and government organizations).

d. Determine if performance goals and standards are readily measurable and provide a meaningful picture of desired results.

e. Determine if the goals and standards properly identify objectives, measures, and expectations as follows:

- Performance Objective: a statement of desired results for an organization, such as "Remove all low-level waste at site X by the end of FY 20XX".

- Performance Measure: a quantitative or qualitative method or characteristic for describing performance, such as "Number of drums of low-level waste removed by a specific time".

- Performance Expectation: the desired condition or target level of performance for each measure, such as "Remove 10,000 drums of low-level waste by the end of FY 20XX".

      f.   Design and conduct limited tests of performance.

      g.   Compare results of performance tests with goals and standards. If performance achieved is below the required measures or standards, determine the reason(s) for the deficiencies.

      h.   Determine financial awards and penalties associated with the performance measures and standards:

- Assess the reasonableness of the awards and penalties, using benchmarking data from industry and government organizations for comparison whenever feasible.

- Determine if the awards and/or penalties are being correctly applied based on actual contractor performance.

- Assess the reasonableness and application of awards to contractors Department is making awards to contractors only after certifying the proposed cost reductions have actually occurred.

E.   <u>Risk Assessment</u>.

      1.   In performing the above steps, you should reach conclusions as to the risk that: (1) noncompliance with laws and regulations significant to the audit objective may have occurred, and was not prevented or detected by the internal controls; and/or, (2) that the program or activity is not performing according to expectations in terms of program results or the economy and efficiency of operations. Document this assessment in the workpapers.

      2.   Use the risk assessment as the basis for designing detailed audit steps to achieve the objectives. Greater inherent and control risk generally requires increased testing. (See Chapter 5 of this Manual)

F.   <u>Cause</u>. Where the risk of noncompliance with laws and regulations is assessed as significant, and/or there is a significant variance between actual performance and the goals and standards, the auditor should draw on the results of testing and assessments made in Section D above to design additional audit steps for the verification phase that will identify the underlying cause (s) for noncompliance or poor performance as required by the audit objective.

G.   <u>Effect</u>. The auditor should identify the potential effect of noncompliance and/or poor performance through discussions with program officials and others knowledgeable of the program or activity. Detailed audit steps should also be designed for the verification phase to document the effect.

H.   <u>Assess Data Reliability</u>. [See also Chapter 7 of this Manual.]

      1.   Determine whether computer-processed data are an important or integral part of the audit and whether the data's reliability is crucial to accomplishing the audit objective. If not, document the rationale in the workpapers and proceed with the next section of the survey program.

2.   If computer-processed data are important or integral, and if the data
        reliability is crucial to accomplishing the audit objective, reliability must
        be assessed. Depending upon whether general and application controls
        have been reviewed, a limited review of pertinent controls may be needed.

3.   Guidance for performing a limited review is found in the GAO publication
        "Assessing the Reliability of Computer-Processed Data." Based on this
        guidance, design appropriate review steps to assess the reliability of the
        computer-processed data. Document all steps and conclusions in the
        workpapers.

I.   Special Instructions.

1   Determine specific staff responsibilities.

2.   Obtain agreement from assist regions as to work to be performed,
        summary due dates, etc.

3.   Other special instructions.

V.   APPROVAL

The audit program, prior to starting audit work, should be reviewed and approved by the Team
Leader and/or Assistant Director and documented in the workpapers.

WORKSHEET FOR DEVELOPING A FINDING

A. Potential Finding. (The specific problem that indicates a need for action.)

B. Brief Statements of Finding Attributes.

1. Condition. (What is--i.e., statements of fact.)

2. Criteria. (What should be--the goals to be achieved.)

3. Cause. (Why it happened--the explanation for the condition and the effect.)

4. Effect. (The difference between what is and what should be, and its significance.)

C. Discussion. (Summarize argument supporting the finding and give specific examples. Normally, this section provides additional detail about how conclusions were reached by "generalizing" about a number of related specifics or details.)

D. Recommendation(s). [Describe what actions we want taken, when, and by which manager(s).]

<u>SAMPLE END OF SURVEY OUTLINE</u>

Highly Enriched Uranium Provided to Foreign Countries
Energy, Science and Environmental Audits Division
End of Survey Document

I. **Background**

As part of its 1950s-era Atoms for Peace program, the United States provided nuclear technology to foreign nations for peaceful applications in exchange for their promise to forego development of nuclear weapons. The program provided foreign countries with research reactor technology and highly enriched uranium (HEU) needed to fuel civilian nuclear reactors. Initially, the U.S. leased HEU to foreign countries with the explicit provision that the spent fuel be returned for treatment and disposal in the U.S. preventing its use in a weapons program. In 1964, the U.S. changed its policy and began selling HEU materials to foreign countries without requiring the return of spent fuel.

In May 1996, in an effort to reduce the threat of nuclear weapons proliferation, the Department of Energy initiated a program to recover foreign research reactor spent fuel containing HEU produced in the U.S. Based on the stated criteria, the program addressed only about 30 percent of the U.S.-produced HEU, which had been provided to foreign countries.

The program, now known as the Foreign Research Reactor Spent Nuclear Fuel Acceptance Program (Acceptance Program), is funded primarily by foreign nations that possess HEU originally produced in the U.S. The objective of the audit was to determine whether the Department's program is maximizing recovery of HEU.

II. **Condition** (<u>Must</u> have examples)

As of August 2003, the Department was likely to recover only about half of the approximately 5,200 kilograms of HEU covered by the Acceptance Program. Moreover, there was no effort to recover an additional 12,300 kilograms of HEU dispersed to foreign countries which was not included in the Acceptance Program.

A. In January 1993, the Nuclear Regulatory Commission reported that 51 countries possessed a total of about 17,500 kilograms of U.S.-produced HEU materials.

B. The Acceptance Program was designed to recover HEU contained in target materials and foreign research reactor SNF – about 5,200 kilograms.

a. As of October 2003, the Department reported that 22 countries had returned about 1,100 kilograms.

b. Based on country-by-country estimates, we concluded that the Department is likely to recover only about one half of the 5,200 kilograms covered by the program.

C. Substantial quantities of U.S.-produced HEU in foreign countries are not addressed by the Acceptance Program.

a. Fuel used in fast reactors and other special-purpose reactors is, by definition, excluded from the program.

b. No program currently exists to address and recover the remaining 12,300 kilograms of HEU.

c. All of the HEU – not just the portion covered by the Acceptance Program – represents a security concern to the United States.

D. The Department, under a separate program administered by NNSA, is funding recovery of HEU produced and exported by Russia to 15 different countries. In fact, in one country, the Department is paying to recover Russian-produced, but not U.S.-produced HEU.

III. **Potential Cause**

Hypothesis: We believe that the effectiveness of the recovery efforts was constrained because:

- Acceptance Program participation was voluntary. Further, many countries viewed the program as costly or disruptive.

To prove this hypothesis, we plan to focus audit work during verification on determining:

1) How many countries the Department expects to fully participate in the program, including the basis for this expectation.
2) Reasons why the countries are reluctant to participate.
3) Steps the Department is taking or can take to encourage participation.
4) Status of measures to encourage participation.

- Responsibility for recovery efforts is not placed in the Department. As a result, sufficient emphasis and priority are not given to recovery efforts.

To prove this hypothesis, we plan to focus audit work during verification on determining:

1) The rationale for placing program responsibility with EM.
2) What priority EM has placed on the program as determined by:

    a) Performance measures established by EM to increase recovery of HEU.
    b) Efforts by EM to outreach to foreign countries to participate in the program.
    c) Efforts by EM to use other DOE and other government agencies to increase foreign country participation.
    d) Status of EM plans, including strategic plans, to recover HEU from foreign countries.
    e) Comparison of EM efforts to increase foreign government participation with other DOE nonproliferation efforts by NNSA.
    f) Resources dedicated by EM to recovery efforts.
    g) Priority given by EM to obtaining greater foreign government participation based on the risk posed by different countries.

3) Does NNSA have greater capability than EM manage HEU recovery, i.e, does NNSA have the existing infrastructure and skills mix to negotiate greater foreign government participation?

IV. **Potential Effect**

At the time of our audit, large quantities of U.S.-produced HEU were out of U.S. control. The Department's success in recovering the HEU is a critical component of the effort to prevent diversion of the material for use in nuclear weapons.

Hypothesis: If the Department is unable to recover a more significant percentage of HEU produced in the U.S. and dispersed to other countries, there may be a greater risk that some of these materials will be diverted – by groups or governments hostile to the U.S. – for use in nuclear weapons.

During the verification phase, we plan to focus audit effort on determining:

1) What studies and analyses exist supporting the potential threat to the U.S. posed by HEU.
2) Views of other government agencies such as State Department and Homeland Security regarding the risk posed by the HEU.

Hypothesis: At least 56 kilograms of U.S.-produced HEU was, over the course of the Atoms for Peace and follow-on programs, exported to four countries that are now considered "sensitive" and which are not participants in the recovery program.

During the verification phase, we plan to focus audit effort on determining:

1) Which countries received HEU that are now considered "sensitive"?
2) Status of efforts to gain sensitive country participation in the recovery efforts.

CHAPTER 11

ISSUANCE AND DISTRIBUTION OF PERFORMANCE AUDIT REPORTS

A. *SCOPE OF CHAPTER*

This chapter details the procedures for transmitting reports to management, issuing and distributing final audit reports, and preparing final report packages. In general, this chapter applies to performance audits. However, the policies discussed have equal applicability to all other audits conducted by Office of Audit Services (OAS) personnel unless specifically addressed otherwise in Chapters 12 and 13 that govern financial statement and contract audits, respectively.

B. *OBTAINING MANAGEMENT COMMENTS ON AUDIT REPORTS*

Generally, the AIG should request written comments on the draft audit report when transmitting it to management. The request should task management to provide comments and concur or nonconcur on the facts, conclusions, recommendations, and potential monetary benefits contained in the draft report. In most cases, the transmittal memorandum will request management to provide comments within 15 working days of issuance. An example of the transmittal memorandum on a draft audit report is included within the OAS Report Style Manual. In addition, this manual describes how auditors should respond to management comments provided for draft audit reports. After evaluating the management comments and completing the Management Comments Matrix (also included within the OAS Report Style Manual), appropriate revisions should be incorporated into a proposed final audit report. This proposed final audit report should be furnished to management prior to the exit conference.

C. *ISSUANCE OF AUDIT REPORTS*

The authority to issue audit reports depends upon the type and status of the report, as well as the sensitivity of the matters discussed in the report. To the maximum extent possible, the authority to issue final audit reports is decentralized to allow reports to be issued timely so that appropriate corrective action can be taken. The Inspector General (IG), however, reserves the authority to specifically designate any report for IG issuance. The issuing authority for various types of reports is discussed below.

    1.   Blue Cover Reports. The AIG must approve all stages of a Blue Cover report before issuance. As a general rule, the Deputy Inspector General for Audit Services (DIGAS) or the IG signs memoranda transmitting documents to an Assistant Secretary or above. The IG shall sign the transmittal memoranda for final reports directed to the Assistant Secretary level or higher. The AIG shall issue and sign transmittal memoranda for draft reports directed to the Assistant Secretary level and any other reports the DIGAS may specifically designate. (See the Report Style Manual for a description of the various types of audit reports issued by OAS.)

    2.   Management Control and Letter Reports. The AIG will issue or sign transmittal memoranda for Management Control and the Division Directors shall sign letter reports directed to Department officials at a level below an Assistant Secretary. As appropriate, Division Directors may further delegate the authority to issue or sign transmittal

memoranda for contract and grant audit reports. The authority to delegate does not relieve the Division Directors of their responsibility to assure a quality product.

3.   <u>Sensitive Audit Reports</u>. The responsible AIG will clear audit reports of a sensitive nature with the DIGAS and the IG. Sensitive reports include those that: (1) contain an adverse opinion or examples of gross mismanagement; (2) have a broad or far-reaching impact; or, (3) are of particular interest to Congress, the media, or high-level Department officials.

D.   *FINAL REPORT DISTRIBUTION*

The IG will send the Secretary an information copy of all Blue and Management Control reports. All reports are distributed to each Department official responsible for taking corrective action (officials to whom the recommendations are addressed), other Department officials, and to other interested parties upon receipt of a valid request.

1.   <u>Performance Audit Reports</u>. The AIG for Resource Management (AIGRM) shall make report distribution for all final Blue and Management Control performance audit reports. In addition to the distribution to the audited field activity, Management Control reports should be sent to the Headquarters program office sponsoring the field activity discussed in the report.

2.   <u>All Other Reports</u>. Report distribution for all other reports is as shown below:

REPORT DISTRIBUTION	
Office	Copies
Addressee	2
Audit Liaison	1
DIGAS	1
AIG for Investigations	1
AIGRM	1
OIG Divisions	1
Internal Audit Groups, as appropriate	1
Audit Team	1

3.   <u>Transmittal and Information Memorandum</u>. Copies of final reports are transmitted to action officials using the transmittal memoranda described below. All final reports should be accompanied with a transmittal letter even when management completely agrees with the report. The format to be used when transmitting final reports where no Management Decision is required is illustrated in the OAS Report Style Manual, Chapter 2 Exhibit E. Where a Management Decision is required, the format to be used in transmitting final reports is illustrated at Exhibit F.

Final reports should also be transmitted to the Department's Audit Liaison. See Exhibit G for the format to be used depending on whether a Management Decision is required or not required.

4.　　Blue Cover Reports. Final Blue Cover reports are transmitted to the Secretary using an information memorandum containing a brief summary of the audit. The information memorandum to the Secretary is bound in the audit report and signed by the IG. The OAS Report Style Manual illustrates the format to be used in the information memorandum. The transmittal memorandum to the action official should not contain a summary of the audit results, since it is already in the Secretary's information memorandum included in the audit report.

5.　　Management Control Reports. Information memoranda for final Management Control reports are addressed to the Department official responsible for the audited activity, signed by the responsible AIG and bound in the audit report. They contain a brief summary of the audit and also follow the format illustrated in the OAS Report Style Manual.

6.　　Letter Reports. Since letter reports are addressed to the Department official responsible for the audited activity, transmittal memoranda are not required.

CHAPTER 12

FINANCIAL STATEMENT AUDITS

A.   *SCOPE OF CHAPTER*
This chapter provides guidance for conducting financial statement audits. It addresses both separate entity/fund financial audits and the audit of the Department of Energy (Department's) consolidated financial statements.

B.   *OVERVIEW OF FINANCIAL STATEMENT AUDITS*
The Government Management Reform Act of 1994 (GMRA) established requirements within the Federal government for audited financial statements. The Federal Financial Management Improvement Act (FFMIA) of 1996 builds upon and complements GMRA. It requires auditors to evaluate and report on an agency's financial management systems compliance in three areas: Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The Chief Financial Officers (CFO) Act requires the Department to prepare and submit to the Director of the Office of Management and Budget (OMB) a financial statement for the preceding fiscal year covering (1) each revolving fund and trust fund of the agency; and, (2) to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.

The GMRA amended the CFO Act and no longer mandates the performance of the separate entity/fund audits for the Department's revolving funds, trust funds, and accounts that involve substantial commercial functions. However, program managers value the information provided by such audits and have elected to continue providing funding for their execution. The GMRA expanded the provisions of the CFO Act and requires audited financial statements covering all accounts and associated activities of the Department be submitted to OMB by a designated date each year. These financial statement audits are to be conducted in accordance with generally accepted government auditing standards by the Office of Inspector General (OIG) or by an independent external auditor, as determined by the OIG.

     1. Objectives of Financial Statement Audits. The objective of a financial statement audit is to determine whether the financial statements of an audited entity present fairly in all material respects the financial position, net costs, changes in net position, budgetary resources, and custodial activities in accordance with Federal accounting standards.

     2. Financial Auditing Standards and Guidance. When performing financial statement audits, auditors will adhere to established standards governing financial statement auditing in the Federal government.

a. <u>Government Auditing Standards</u>. The cited legislation requires that the standards published in "Government Auditing Standards, 1994 Revision", also known informally as the "Yellow Book", be followed in audits of Federal departments and agencies. Specifically, Chapters 3, 4, and 5 of the U. S. Government Accountability Office (GAO) "Yellow Book" describe standards to be followed when performing financial statement and financial related audits. For financial statement audits, generally accepted government auditing standards incorporate the American Institute of Certified Public Accountants' (AICPA) three general standards (staff qualifications, independence, and due professional care), three generally accepted standards of field work (planning; internal controls; and sufficient, competent evidential matter), and four generally accepted standards of reporting (generally accepted accounting principles, consistency, disclosures, and opinion). GAO published an update to the Yellow Book in 2007 that supersedes the 1994 version, although Chapters 3, 4, and 5 remain applicable to OIG auditing activities. This revision made changes that (1) add emphasis on ethical principles including a description of five key ethical principles, (2) clarify the discussion of the impact of non-audit services on independence, (3) reflect current developments in financial auditing and internal control, restatements, uncertainties, and other unusual events, and (4) enhance performance auditing standards.

b. <u>OMB Bulletin and Amendments on "Audit Requirements for Federal Financial Statements</u>." The CFO Act, as expanded by the GMRA and FFMIA, requires OMB to establish government-wide financial management policies for executive departments and agencies and to provide overall direction and leadership to the Executive Branch on financial management matters. OMB's financial audit bulletin and amendments implement the audit provisions of these Acts, establishing the audit requirements for Federal financial statements, including OIG oversight, the scope of the audit, and depth of coverage in the audit reports resulting from the audit.

c. <u>The GAO/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual (FAM).</u> This Manual describes the methodology for financial statement audits. It contains detailed implementation guidance for all four phases of an audit: (1) planning; (2) internal control evaluation; (3) testing of accounts, controls, and compliance; and, (4) reporting. Included in this manual is specific guidance for such critical procedures as assessing risk, establishing materiality, determining sample size, identifying specific laws and regulations for testing, evaluating an entity's financial integrity process, and assessing budget execution and data processing controls.

3. <u>Accounting Principles and Standards</u>. To meet the objectives of a financial statement audit, the auditor needs to understand the appropriate accounting principles and standards used to prepare the financial statements. The Yellow Book cites three authoritative bodies for generally accepted accounting principles: the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the sponsors of the Federal Accounting Standards Advisory Board (FASAB). GASB establishes accounting principles and financial reporting standards for state and local government entities. FASB establishes accounting principles and financial reporting standards for non-government entities.

• The sponsors of FASAB--the Secretary of the Treasury, the Director of OMB, and the Comptroller General-- jointly establish accounting principles and financial reporting standards for the Federal government, based on recommendations from FASAB. The Director of OMB and the Comptroller General will issue specific standards agreed upon by these three officials as FASAB standards.

In April 2001, the AICPA, through the Statement on Auditing Standards (SAS) No. 69, The Meaning of *Present Fairly in Conformity with Generally Accepted Accounting Principles* (GAAP) in the Independent Auditor's Report, as amended by SAS No. 91, Federal GAAP Hierarchy, established the following hierarchy of accounting principles for Federal government entities:

• FASAB Statements and Interpretations plus AICPA and FASB pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation.

• FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

• AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

• Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government.

C.   *CONSOLIDATED FINANCIAL STATEMENT AUDITS*

This section describes the audit strategy, staffing of findings and recommendations, management response process, and reporting policy for the audits established by GMRA.

1. Audit Strategy. Under an audit strategy adopted by the OIG, the Office of Audit Services (OAS) uses the combined efforts of the Assistant Inspector General (AIG) for Environment, Science, and Corporate Audits (ESC) and independent public accountants (IPAs) to accomplish GMRA audits. The AIG ESC is responsible for ensuring that audits required under GMRA are completed on time, including necessary coordination and development and implementation of a quality assurance process. This quality assurance effort will be conducted in concert with the work performed by IPAs on the consolidated financial statements of the Department as well as the separate entity/fund financial audits that feed into the Department-wide financial statement audit and direct reliance will be placed upon the work performed by the IPAs in this regard.

a.   Financial and Corporate Audits Group. The AIG ESC has designated the Financial and Corporate Audits Group in Germantown as the audit control point to ensure that the audit requirements associated with the Department's consolidated

financial statements are achieved in a timely manner with a quality product. Specifically, the Financial and Corporate Audits Group is responsible for:

- Preparing and issuing announcement letters, and arranging and participating in entrance and exit conferences;

- Developing all IPA work orders and task orders, and reviewing early task order deliverables;

- Ensuring that the IPA has provided independence statements and auditor qualifications information, as necessary, for employees and subcontractor employees assigned to the audit;

- Arranging audit coordination meetings with the IPA and CFO and attending all significant meetings;

- Reviewing IPA monthly status reports and billing invoices;

- Technical monitoring and oversight of all work performed by the IPA including reviewing all findings;

- Coordinating, developing, and performing quality assurance procedures including execution of the *Quality Control Review Checklist* and follow up on disposition of OIG comments by the IPA;

- Conducting segments of the consolidated financial statement audit as necessary to ensure that the audit is completed within established timeframes. Audit documentation for each portion of the audit performed by the OIG will be included in separate TeamMate files;

- Developing and updating, as appropriate, a detailed risk assessment and a strategic plan which lays out the overall management approach for the audit, including milestones and staffing estimates;

- Developing reporting formats for workpaper summaries and audit reports;

- Coordinating the development of the Department-wide financial statement audit report and Headquarters management report; coordinating financial statement audit activities with external agencies, such as GAO, OMB, and Internal Audit; and,

- Overseeing implementation of the FFMIA.

The Financial and Corporate Audits Group will document all aspects of IPA monitoring in TeamMate. A TeamMate file will be established at the beginning of each audit cycle and will include documents describing the steps taken to monitor progress on the audit as well as attachments to the workpapers for copies of key documents. TeamMate will not be used for audit workpapers prepared by IPAs unless otherwise specified in the contract. Separate TeamMate files will be maintained for the separate entity/fund audits.

b. IPA Resources. The audit report on the Department's consolidated financial statements will be based upon audit work conducted by the IPA(s) and, as necessary, the OIG on the consolidated financial statements and the individual separate entity/fund financial statement audits. In addition, the OIG may contract with an IPA to perform specific agreed upon audit procedures. The Technical Monitor will coordinate the issuance of work orders identifying the procedures to be performed by the IPA and coordinate IPA work to address audit needs as appropriate. As necessary, the Technical Monitor will rely to the extent possible on the direct assistance of internal auditors in applying specific audit procedures in support of financial statement audits. The Technical Monitor will obtain assurance that such audit work meets professional audit standards through the current annual Internal Audit assessment process and other quality assurance procedures.

2. Staffing of Findings and Recommendations. While the elements of findings and recommendations developed during financial audits parallel those developed during performance audits, the tighter reporting deadlines dictate a more streamlined staffing process. Rather than waiting for a draft audit report, findings and recommendations should be developed and staffed as soon as possible during the execution of the audit. Departmental management should provide comments on these findings and recommendations, including corrective actions taken or planned.

3. Management Comments on Audit Findings. Management should be notified that timely response to findings and recommendations is essential if management views are to be included in the final report. When management responds in a timely manner, their comments will be included in the related audit report. Due to the short reporting timeframe, the normal management reply process employed by the OIG will not be used. The audit team will obtain management comments on the findings and recommendations and hold an exit conference with appropriate management personnel. Normally, a draft copy of the report will be provided to management prior to the exit conference. A formal management response will not be required, and issuance of financial statement audit reports will not be delayed pending receipt of management comments to a draft report. Management's formal position on audit results will be established through the audit resolution process.

4. Reporting. At the completion of fieldwork, the IPA, in consultation with the OIG, will prepare and issue a series of reports to Departmental management, both at Headquarters and to each applicable field/operations office.

a. Department-wide Report. The Department-wide report transmitted to the Secretary of Energy by the Inspector General, will consist of an Executive Summary and the following three parts, issued under one cover:

(1)   Report on the Department of Energy's Consolidated Financial Statements. Based on the audit work performed, the IPA renders (or disclaims) an opinion on whether the Department's financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, financing activities, and

custodial activities in accordance with Federal accounting standards. The format for this report will be consistent with OMB guidance and AICPA standards. The audit opinion will fall into one of the following categories:

• <u>Unqualified (Clean) Opinion</u> - The auditor is able to express an unqualified opinion only if the audit has been conducted in accordance with generally accepted governmental auditing standards and the auditor has been able to apply all the procedures the auditor considers necessary in the circumstances. In an unqualified opinion on the financial statements, the auditor concludes that the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, financing activities, and custodial activities in accordance with appropriate accounting principles and practices.

• <u>Qualified (Except for) Opinion</u> - A qualified opinion states that "*except for"* the effects of the matter to which the qualification relates, the financial statements are fairly presented. A qualified opinion can result from a scope limitation or a departure from the appropriate accounting principles when the auditor has determined that an adverse opinion is not warranted.

• <u>Adverse Opinion</u> - An adverse opinion states that the financial statements do not fairly present the financial position, net cost, changes in net position, budgetary resources, financing activities, and custodial activities in conformity with Federal accounting standards. This type of opinion is expressed on the financial statements taken as a whole when there are material departures from established accounting principles.

• <u>Disclaimer</u> - In a disclaimer, the auditor does not express an opinion on the financial statements. A disclaimer of opinion is appropriate when the audit scope is not sufficient to enable the auditor to express such an opinion.

(2) <u>Report on Internal Control Structure</u>. The Report on Internal Controls will:

• State that, with respect to the internal controls pertaining to the financial statements, the auditor obtained an understanding of the design of significant internal control structure policies and procedures, determined whether they have been placed in operation, assessed control risk, and performed tests of the Department's internal controls. See Chapter 5 of this Manual for particulars on assessing internal controls.

• State that, with respect to the performance measures reported in the overview, the auditor obtained an understanding of significant internal controls related to the existence and completeness assertions as required by the current OMB Bulletin. For 2007, an OMB pilot program allows agencies to report only high-level performance information in the overview with more detailed performance measures reported separately in an Annual Performance Report. The Report on Internal Controls may be modified to reflect these revised provisions.

• State that with respect to Required Supplementary Stewardship Information (RSSI), the auditor determined whether internal controls had been placed in

operation, assessed control risk, and performed tests of controls as required by the current OMB Bulletin.

• Classify significant deficiencies and material weaknesses identified in accordance with the following definitions. Significant deficiencies are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated. Significant deficiencies are defined as deficiencies in internal control that adversely affect the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected. Significant deficiencies that meet the materiality level established for the consolidated financial statement audit will be addressed in the Department-wide report on internal controls. The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 112, Communicating Internal Control Related Matters Identified in and Audit also provides guidance on evaluating potential control deficiencies and provides examples.

A material weakness in internal controls is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. All material weaknesses will be addressed in the Department-wide report on internal controls.

• State that, in evaluating internal controls, the auditor considered matters reported by the Department in compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), prior and current audit reports, and other independent audit reports on financial matters and internal accounting control policies and procedures.

• Disclose the status of known but uncorrected significant findings and recommendations from prior audits that affect the current audit objective.

(3) Report on Compliance with Laws and Regulations. Auditors will report the scope of their testing of compliance with laws and regulations and the results of those tests. When auditors conclude, based on evidence obtained, that an irregularity or illegal act either has occurred or is likely to have occurred, they will report relevant information. The auditor will also report whether the Department's financial management systems substantially comply with FFMIA.

b. Management Letter(s). The auditor will communicate those findings identified during the consolidated financial statement audit that were not considered to be significant deficiencies and other management issues within the purview of the Department's CFO (i.e., policy related issues) in a management report. This management report will be prepared by the IPA and authenticated by the AIG ESC, and is intended to inform Department management of weaknesses that were not included in the Report on Internal Control Structure in the Department wide report.

D.   *SEPARATE ENTITY/FUND FINANCIAL AUDITS*

This section describes the audit entities, audit strategy, organizational approach, quality assurance, and reporting processes for separate entity/fund financial audits.

1. Audit Entities. Financial statement audits of the following eight Departmental separate entities/funds may be performed on an annual basis:

- Southeastern Federal Power Program

- Southwestern Federal Power System

- Western Area Power Administration

- Bonneville Power Administration (Federal Columbia River Power System)

- Uranium Enrichment (Decontamination and Decommissioning) Fund

- Federal Energy Regulatory Commission

- Nuclear Waste Fund

- Isotope Production and Distribution Fund

2. Audit Strategy. The Department has historically contracted with IPA firms to perform financial statement audits of the separate entities/funds. While all of these audits are administered and coordinated by the OAS, sponsoring programs separately fund them. Assuming that funds are available, current OIG policy indicates that such work will continue to be performed by IPAs. In conjunction with sponsoring program elements, OAS will generally establish and execute a task order describing the level of effort needed for each engagement and monitor IPA activities throughout the course of the engagement.

3. Quality Assurance. The Deputy Inspector General for Audit Services (DIGAS) has assigned responsibility for separate entity/fund financial audits to the Office of the AIG ESC to include the necessary coordination and for developing a quality assurance process. Technical direction and oversight functions (to include quality assurance checks) are performed by the AIG ESC Technical Monitor. OAS Headquarters staff will provide advice and assistance on overall policy matters. To ensure that the IPA provides the OIG with quality reports, the Technical Monitor's responsibilities include, but are not limited to, the following:

- Providing periodic status updates and coordinating all significant accounting or programmatic issues;

- Reviewing the IPA's audit approach and milestones for the audits;

- Determining whether major financial system enhancements are sufficiently reviewed in the IPA's internal control work;

- Participating in progress meetings with the CFO and program management staff to monitor control and substantive test work and to assist in early resolution of problems;

• Performing workpaper reviews using the Guide for Quality Control Review of Stand Alone Financial Statement Audits and reporting on the results of the review to the IPA; and,

• Reviewing draft and final audit reports for accuracy and completeness.

4. Reporting. Separate entity/fund audits are performed annually. The IPA will submit its work products directly to the Financial and Corporate Audits Group in the Office of the AIG ESC. This audit group will prepare and sign memoranda transmitting reports to the auditees (no longer addressed to the Secretary). The Office of the AIG ESC will distribute reports to all primary recipients, i.e., addressees, ccs, audit liaisons, other OIG audit offices, etc. Additional copies should be provided to the Office of Financial Resources to have on-hand and to be sent out on request.

CHAPTER 13

CONTRACT AUDITING

A. *SCOPE OF CHAPTER*

This chapter covers OAS's policies and procedures for conducting contract audits. For the Department's non-management and operating contracts, grants, and other agreements, responsibility for performing contract audits normally rests with other Federal agencies. However, on occasion, OAS may be called upon to conduct contract audits, which are attestation engagements that focus on cost allowability and compliance issues. For ease of presentation in this chapter, these engagements will be referred to as contract audits. In addition, contracts, grants, cooperative agreements, and other government-funded awards will be referred to as contracts; and, contractors, grantees, and other recipients of government funds will be referred to as contractors.

B. *BACKGROUND*

Contract audits are conducted for the purpose of providing financial advice and recommendations to contracting officers in awarding, administering, and closing out contracts. For example, before awarding a contract, a contracting officer might request a pre-award contract audit to evaluate the allowability and reasonableness of a prospective contractor's cost proposal and assess other financial-related issues, such as the adequacy of the contractor's cost accounting system and financial capability to perform a contract. After a contract is awarded, the contracting officer might request a cost incurred contract audit to determine the allowability of actual costs claimed by a contractor and the contractor's compliance with contract terms and applicable laws and regulations.

C. *TYPES OF CONTRACT AUDITS*

Some of the more common types of contract audits are as follows:

    1.   Pre-award. The objective of a pre-award audit is to evaluate the allowability, allocability, and reasonableness of an offeror's proposed costs for use as the basis for negotiating a contract price. In the pre-award audit, the auditor is providing the contracting officer and the procurement team with advice on estimated future costs.

    2.   Incurred Cost. The objective of an incurred cost audit is to determine the allowability of direct and indirect costs claimed by a contractor. Allowable costs are costs incurred that are reasonable, allocable, and in accordance with the terms of the contract, applicable cost principles, laws and regulations, and generally accepted accounting principles and practices appropriate to the particular circumstances. For multi-year contracts, interim audits, such as annual or bi-annual, of incurred costs may be required. The frequency of interim audits will depend upon contract dollar value, period of performance, requests from the contracting officer, and availability of audit resources. An interim audit of indirect costs may be required annually in order to finalize annual indirect cost rates.

3.   <u>Cost Accounting System</u>. The objective of a cost accounting system audit is to determine if the cost accounting system of an offeror or contractor is adequate for estimating, accumulating, and reporting costs. In addition, contracting officers can also request the auditor to review the adequacy of a contractor's Cost Accounting Standards Disclosure Statement and/or to determine if the contractor is in compliance with Cost Accounting Standards. Also, in assessing risk for an incurred cost audit, the auditor will evaluate a contractor's cost accounting system to determine the reliance that can be placed on it to prevent unallowable costs from being claimed.

4.   <u>Financial Capability</u>. The objective of a financial capability review is to determine whether an offeror has adequate financing resources to perform and complete the work required under a contract. Contracting officers can request financial capability evaluations as part of a pre-award audit or as a separate review.

5.   <u>Contract Termination</u>. The objective of a contract termination audit is to determine the allowability, allocability, and reasonableness of the amounts claimed in a contractor's termination proposal. Terminations may be at the Department's convenience or due to default by the contractor. In developing a settlement proposal for a termination made for the Department's convenience, the contractor generally requests compensation for all costs resulting from the contract not being carried to completion.

D. *AUDIT COGNIZANCE*

A cognizant audit agency is a Federal agency responsible for performing all contract audits at a contractor. It is the government's general policy that only one agency will be designated as the cognizant audit agency for a contactor in order to ensure audit consistency, avoid duplication of effort, and facilitate contract administration. Audit cognizance results in efficient use of audit resources because it enables one set of auditors to develop experience and a knowledge base for the contractor's operations and cost accounting system.

For entities other than educational institutions and nonprofit organizations, the Federal Acquisition Regulations assign the Defense Contract Audit Agency (DCAA) as the cognizant Government audit agency, unless other arrangements are made. For educational institutions, the cognizant Federal agency is established according to OMB Circular A-21, *Cost Principles for Educational Institutions*, and for nonprofit organizations, the cognizant Federal agency is established according to OMB Circular A-122, *Cost Principles for Nonprofit Organizations*.

Generally, for the Department's non-management and operating contractors, DCAA is the cognizant audit agency and is responsible for conducting contract audits at those contractors. However, as arranged for in a Memorandum of Understanding with DCAA, OAS is the cognizant audit agency for the Department's management and operating contractors. See Chapter 14 for details of OAS's audit coverage of the Department's management and operating contractors.

E. *GENERAL CONTRACT AUDIT POLICIES*

The following are OAS policies and procedures applicable to contract audits.

1.   Accepting Requests for Contract Audits. Since OAS does not routinely perform contract audits, any requests received by OAS offices should be forwarded to the responsible AIG with a copy to the DAPA. The AIG should determine whether the request should have been directed to another agency that has audit cognizance. Also, before accepting any request, the AIG should prioritize the requested audit in relation to all other planned audits to determine whether conducting the audit will be an effective and appropriate use of OAS resources. The AIG is responsible for advising the requester on whether the OAS will perform the requested audit.

2.   Conducting a Contract Audit. OAS auditors will follow OAS policies and procedures contained in this Manual that are applicable to all OAS audits. For example, all contract audits must be documented in a TeamMate audit file in accordance with policies and procedures expressed in Chapter 6 of this Manual. Contract audits will be conducted in accordance with the general, field work, and reporting standards for attestation engagement contained in GAGAS.

3.   DCAA Contract Audit Manual. DCAA, in its *Contract Audit Manual* (CAM), has developed detailed guidance for each type of contract audit. DCAA's CAM provides excellent guidance for in-depth audit techniques in various situations and should be consulted by OAS auditors conducting any contract audit. DCAA's CAM is available at DCAA's website.

4.   Proprietary Data. When performing contract audits, consideration must be given to protecting an entity's proprietary data. The auditor must keep proprietary data confidential and not release it publicly. Under 18 U.S. Code 1905, the auditor can be held liable for disclosing proprietary data. Therefore, the auditor must use the utmost care in identifying and marking all such data in the TeamMate audit file. The following notice, addressing the restrictions on releasing information in a contract audit report, must be included on the title page of the report and in the report's transmittal memorandum:

> *This audit report may contain proprietary or other sensitive information. The restrictions of 18 U.S. Code 1905 should be considered before this information is released to the public. All Freedom of Information Act requests for audit reports received by the Office of Inspector General will be referred to the cognizant contracting officer for determination as to releasability and a direct response to the requestor. Furthermore, the information contained in this report should not be used for purposes other than those intended without prior consultation with the Department of Energy's Office of Inspector General regarding its applicability.*

If a subcontract is audited, a statement disclosing the subcontractor's views regarding release of the report to the prime contractor or to a higher-tier subcontractor should also be inserted in the report and in the transmittal memorandum.

5.   Discussing Results with Auditee. For contract audits other than pre-award audits, audit results and findings are normally discussed with contractor management officials. Details of findings, analysis, calculations, conclusions, and recommendations should be discussed. The auditor should obtain contractor management's verbal comments on

findings and recommendations and include management's comments in the report. For pre-award audits, the auditor can discuss facts related to questioned, unsupported, and unresolved costs with the offeror's management only if such discussions are approved in advance by the contracting officer or the procurement official who requested the audit.

6.   Draft Reports. Draft reports are not issued for contract audits. However, if requested or at the auditor's discretion, the auditor can provide preliminary audit results to the contracting officer or procurement official as issues develop during the audit. For pre-award audits, the auditor should advise the contracting officer or procurement official of audit results as soon as they are available.

7.   Exit Conference. For contract audits, the exit conference is held at the conclusion of fieldwork. For cost incurred audits, the findings are discussed in detail, and contractor comments and reactions are obtained verbally or in writing for inclusion in the audit report. For pre-award audits, an exit conference to discuss the audit results with the offeror can be held only if approved in advance by the contracting officer or responsible procurement official.

8.   Subcontractor Costs. The proposed or claimed costs to be audited can sometimes include costs from subcontractors that also need to be audited. It is the responsibility of the contracting officer or the prime contractor to request an assist audit from the subcontractor's cognizant audit agency. If the results of the subcontract audit are received prior to issuance of the audit report on the prime auditee, the subcontract audit results should be incorporated. The report should identify the audit work performed by the subcontractor's cognizant auditor. If the results of the subcontract audit are not received prior to issuance of the audit report, the subcontract costs should be classified as unresolved.

F.   *CONTRACT AUDIT REPORT*

The format of a contract audit report will be determined by the audit request, type of audit, complexity of the subject matter of the audit, and the findings and recommendations. The AIG normally issues contract audit reports.   Details on the contract audit report are as follows:

1.   Report Addressee. The contract audit report is normally issued to the contracting officer or the procurement official who requested the audit.

2.   Identification of Requesting Organization. Describe why the audit was being conducted. For example, the report should identify the organization and office requesting the audit.

3.   Subject of Audit and Scope. Identify what was covered by the audit. For example, the report should identify and briefly describe the specific cost proposal or claim covered by the audit. In addition, the report should identify the time period covered by the audit and the amount of cost and fee proposed or claimed.

4   Criteria. Cite the criteria used by the auditor to evaluate the contractor's costs. For example, in evaluating the allowability of costs claimed in an incurred cost audit, the auditor would normally cite the contract terms and the applicable cost principles.

5.   Audit Objective. State the audit objective. The most common contract audit objective is to determine the allowability of costs proposed or claimed. If the auditor was requested to form an opinion on the cost accounting system, this should be included as one of the audit objectives.

6.   Methodology. Briefly describe the auditor's methodology. For example, if appropriate, a cost incurred audit report should state that the auditor validated costs by tracing them to books of original entry and supporting documentation. A pre-award audit report should state that the auditor analyzed projections, historical data, and other cost and pricing data on which the estimated costs were based.

7.   Audit Coverage of Internal Controls. Indicate the extent of work on internal controls. For examination-level attestation engagements, GAGAS requires auditors to obtain a sufficient understanding of internal control that is material to the subject matter in order to plan the engagement and design procedures to achieve the objectives of the engagement.

8.   Auditing Standards. State that the audit was performed in accordance with GAGAS for attestation engagements.

9.   Field Work Completion Date. State the date that fieldwork was completed.

10.   Circumstances Affecting the Audit. Identify any circumstances that impacted the audit, such as scope limitations, restrictions on access to information, or other factors affecting the audit.

11.   Audit Results. Provide conclusions on each of the objectives. For example, in an incurred cost audit, the report should identify the amount of costs questioned and unresolved and state the conclusion that the balance of costs is provisionally approved pending final acceptance. The report should also state that the final acceptance of amounts claimed under Government contracts does not take place until performance under the contract is completed and accepted by the responsible contracting officials and audit responsibilities have been completed. In a pre-award audit, the report should identify the amount of costs questioned, unsupported, and unresolved and state the conclusion that the balance of proposed costs are adequate for use as a basis to negotiate a contract amount.

12.   Finding Details. The auditor has two options for reporting finding details. The auditor can present finding details in the body of the report or in exhibits. Proper reporting will be the presentation that describes the audit clearly and concisely but provides enough detail to enable the contracting officer to understand the results and resolve findings. If there are only a few findings, their amounts are not significant, and issues are not complex, the auditor will likely be able to present the results in the body of the report. However, if there are several findings, amounts are significant, or the findings are not easily explained and require supporting calculations, the auditor should present them in supporting exhibit(s). If exhibit(s) are used, the auditor should state in the body of the report that details of findings are presented in the exhibit(s).

13.   Finding Attributes. The extent of development of finding attributes in contract audits varies from situation to situation. For all findings, the condition, criteria, and

effect are always needed. Cause should only be presented if it has been adequately developed.

14.   Small Dollar Findings. As a general rule, all costs found to be questioned, unsupported, or unresolved are reported. However, if the total dollar amount of a finding is very minor (such as under $100), it need not be reported. Such unreported amounts should be disclosed to the contractor at the exit conference.

15.   Recommendations. Recommendations are needed if the auditor has identified issues that require corrective actions. Recommendations should be addressed to the contracting officer and should recommend that the contracting officer direct the contractor to take corrective action. For example, a recommendation could be made to correct a specific cost accounting system weakness. Recommendations may be implied with respect to questioned cost and need not be stated (i.e., recover the amount questioned).

16.   Contractor's or Offeror's Comments. Indicate whether findings were discussed with contractor or offeror officials and identify the titles of the officials with whom any discussions were held. Names of officials should never be included. Contractor or offeror comments on audit results and recommendations should also be included, if obtained. If written comments are lengthy, they can be included as an attachment to the report. If comments were requested but not provided, the report should state that no comments were received.

17.   Exhibits. The number and design of exhibits will depend on the complexity of the findings. As a general rule, exhibits should provide sufficient detail and explanation in order for the contracting officer to fully understand the audit results and resolve findings. Exhibits can have supporting schedules if necessary. However, exhibits should not contain peripheral information that does not add to the presentation of the audit findings.

18.   Other Matters to be Reported. Include matters not directly related to the audit objective(s), but which need to be included as a matter of record. For example, the auditor can describe a pertinent issue that will be addressed in more detail in another audit report or should otherwise be considered by the contracting officer.

19.   Attachments. Attachments can be included if necessary. Examples of typical attachments are lengthy contractor comments, an assist audit report received from the cognizant audit agency for a subcontractor, or a technical analysis report received from the procurement office and used in the auditor's computation of questioned costs.

20.   Proprietary Data. As stated in section E.4 of this chapter, the auditor must protect proprietary data in a contract audit and a notice, addressing the restrictions on releasing the information in the audit report, must be included on the title page of the report and in the report's transmittal memorandum. See section E.4 for the notice.

21.   Prohibition on Releasing Audit Report. It is the contracting officer's responsibility to determine whether a copy of the report should be released to the auditee. Therefore, the auditor should never release a copy of the report to the auditee without prior approval from the contracting officer or responsible procurement official. The report transmittal memorandum should state the following:

The Office of Inspector General has no objection to the release of this report at the discretion of the contracting officer to the duly authorized representatives of the contractor (or offeror).

22.   <u>Follow-up Request</u>. The transmittal memorandum for the contract audit report should request that the report addressee provide the OAS with the details of the final resolution of the questioned costs or other findings contained in the audit report.

23.   <u>Transmittal Memorandum</u>. See Exhibit A for an example of a transmittal memorandum for a contract audit report.

EXAMPLE OF TRANSMITTAL MEMORANDUM FOR CONTRACT AUDIT REPORT
(USE MEMORANDUM PAPER)

DATE: Month XX, XXXX

REPLY TO
ATTN OF: IG-XX (Project Number)

SUBJECT:

TO: Requestor

In response to your request, attached are two copies of the subject report. (State why the audit was performed and what was audited.)

The Office of Inspector General has no objection to the release of this report at the discretion of the contracting officer to the duly authorized representatives of the prospective contractor. All Freedom of Information Act requests for audit reports received by the Office of Inspector General will be referred to the cognizant contracting officer for determination as to releasability and a direct response to the requestor. Information contained in this audit report may be confidential. The restrictions of 18 U.S.C. 1905 should be considered before this information is released to the public.

Please provide the details of the resolution of our audit findings. If any further information is required, we will furnish it on request.

<div style="text-align:right">

NAME
Assistant Inspector General
    for _____
Office of Inspector General

</div>

Attachment

CHAPTER 14

GUIDELINES FOR CONTRACTOR INTERNAL AUDITORS

A.   *SCOPE OF CHAPTER*

Guidance in this chapter is intended to assist contractor Internal Audit Activities (Internal Audit) in coordinating their audits, minimizing duplication, and ensuring compliance with professional auditing standards. In conjunction with the Department of Energy (Department) Acquisition Regulation (DEAR) 970.5232-3, *Accounts, records, and inspection*, section (i), this chapter also provides guidance for Internal Audit regarding performance audits, allowable cost reviews, and specific audit/review objectives by contractor function.

B.   *AUDIT RESPONSIBILITIES FOR DEPARTMENTAL CONTRACTORS*

Audit responsibilities for Department contractors vary depending on whether an integrated or non-integrated contractor is involved.

> 1.   Integrated Contractors. An integrated contractor is a management and operating contractor whose costs under a cost-type contract are financed by the Department and who is required to maintain a separate and distinct system of accounts, records, documents, and other evidence showing and supporting all allowable costs incurred, revenues or other applicable credits. The system of accounts employed by the contractor must be satisfactory to the Department and comply with generally accepted accounting principles consistently applied unless the Department requires the use of an alternate accounting methodology. The accounts maintained by the contractor for operations under the contract are integrated with those of the Department. At the end of each fiscal year (FY), the contractor is required to submit a Statement of Costs Incurred and Claimed (SCIC) that includes the contractor's certification that the costs claimed represent allowable contract costs. Guidance for Internal Audit's review and assessment of the allowability of costs incurred as reported on the SCIC is detailed in Exhibit B. The policies, procedures, and guidance for the OIG's review of the SCIC are contained in Chapter 15.

> 2.   Non-Integrated Contractors. A non-integrated contractor is one whose systems of accounts, records, documents, and other support for costs incurred are not integrated with those of the Department, and who is not required to submit the SCIC at the end of the FY. At non-integrated management and operating contractors, the OIG retains overall audit cognizance. For non-integrated, non-management and operating contractors, according to a 1991 memorandum of understanding between the Department and the Defense Contract Audit Agency (DCAA), the responsibility to conduct incurred costs and other types of cost reviews was assumed by DCAA. At these locations, the contractor submits incurred costs reports in accordance with guidelines established by the terms of the contract. The OIG continues to have responsibility for performance audits and all other audits and reviews outside of DCAA's traditional contract audit function. Auditors should be familiar with the terms under which DCAA performs its work at any non-integrated non-management and operating contractors.

C. *AUDIT OBJECTIVES FOR CONTRACTOR OPERATIONS*

The objectives for performance audits of contractor operations are to determine: (1) whether functions are being managed efficiently and effectively, and are operating in accordance with applicable laws, regulations, policies, and contract terms; (2) the extent to which program and project management has provided direction to achieve the desired level of results; and (3) if programs, projects, and other activities are functioning as intended and are accomplishing their stated purpose or objective.

The objectives for other audits and reviews of contractor activities vary greatly and may include determining:

- The reliability and usefulness of financial information reported to the Department and the reliability of the contractor's allowable cost representations.

- Compliance with laws, regulations, and contract provisions that govern the acquisition, management, and use of resources, or have a material effect on financial information.

- Whether internal controls are adequate to prevent, identify and report unallowable and unreasonable costs.

- The allowability of costs.

- Potential spin-off work from performance audits for areas identified with control or compliance weaknesses.

Recognizing the limited resources to achieve all of the above audit objectives and types of audits, the OIG relies, to the extent possible, on the work of Internal Audit to minimize duplication and maximize audit coverage of Department contractors. However, the OIG must be able to obtain assurance that Internal Audit work meets professional auditing standards and other requirements. Also, procedures must be in place to ensure that work is adequately planned, coordinated, conducted, and reported in an effective and timely manner. The following section provides a detailed discussion of performance audits as they relate to integrated contractors.

   1.   Performance Audits of Integrated Contractor Functions. Functional activities are essential to achieve program objectives. The components of a contractor's organization and their related functional statements usually depict the functions conducted by the contractor in support of its principal programs. For most integrated contractors, the list of functions is formidable. In most cases, functional responsibility is delineated according to organizational components. Individually and collectively, functional organizations provide control and administration of resources and services required to directly support program activities.

      a.   General Objectives of Performance Audits. The performance audit program is designed to provide regular audit coverage of an integrated contractor's activities through examination of each function. The general objectives of performance audits are to determine the:

         - Extent to which resources are managed and used efficiently.
         - Economy and effectiveness of functional practices in fulfilling assigned responsibilities.

- Reliability and integrity of management information reports on cost, schedule, and performance of functions.
- Extent of compliance with contract requirements and laws and regulations governing acquisition, management, and use of an entity's resources.
- Adequacy of asset controls to provide reasonable safeguards against waste, loss, or misuse.

The auditor should develop specific objectives for each performance audit to augment the general objectives. In developing an audit program, the audit survey results should be used to develop the specific audit objectives. A brief discussion of each general audit objective follows.

(1)   Efficient Use of Resources. Cyclical audit coverage will include not only an examination of individual functional performance, but also an examination of the collective contribution of all applicable functions affecting the use of each type of resource such as cash, materials, facilities, equipment, and labor. Examination of the management and use of resources may cut across several functional organizations. The auditor must also consider the resource status and the functions related to the planning, acquisition, control, and consumption of the resource. Functions are somewhat interdependent when considered from the standpoint of the event cycle affecting each type of resource.

(2)   Economy and Efficiency of Functional Practices. Economy and effectiveness of functional services can be judged in several ways. Operating program management judges the effectiveness of functional support by the quality, timeliness, and usefulness of the services provided. Functional managers and senior management are concerned with costs, as well as the effectiveness of functional services. When properly designed, accountability reports should gauge efficiency and economy of functional operations, comparing costs and output to approved budgets and performance standards. The auditor needs a thorough understanding of functional practices to distinguish essential activities from supporting and/or unnecessary activities, and help management simplify, combine, or eliminate activities.

(3)   Reliability and Integrity of Management Information on Cost, Schedule, and Performance. Cost and performance information is essential to good management. Reports should be designed to meet the needs of management. Information in reports to management should be timely, complete, useful, and reliable. Performance audit should determine whether these criteria are being met. Furthermore, it is important to ascertain whether the information in reports is being used effectively in the management and control of functional activities.

(4)   Compliance with Contract, Laws, and Regulations. Organizations are responsible for knowing what contract provisions and laws and

regulations apply to their activities and for ensuring compliance with these requirements. One objective of performance audits is to determine the extent of compliance with these requirements.

(5) <u>Safeguarding of Assets</u>. During performance audits, auditors should determine if the contractor is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the contractor's resources. These audits provide an opportunity to examine asset safeguards in greater depth than do financial audits.

b. <u>Correlation of General Audit Objectives with the Department's Internal Control Objectives</u>. The preceding management objectives correlate to the objectives of performance audits. Accordingly, each functional audit survey should include review and evaluation of reports and documentation relative to applicable internal control systems. This procedure provides valuable insight to the development of specific audit objectives.

c. <u>General Audit Approach</u>. The approach to a performance audit of an integrated contractor involves:

- Developing a tentative audit objective.

- Performing an audit survey.

- Analyzing data accumulated during an audit survey.

- Developing an audit program, including refining the audit objective and describing audit tests and other audit procedures.

- Examining and evaluating the function in detail and accumulating evidence in the form of audit/review documentation.

- Preparing and issuing a report.

When the audit objective requires a determination of the adequacy or effectiveness of controls, the audit procedures should include sufficient tests of transactions, balances, or other activities of such controls to support the auditor's conclusion.

2. <u>Program Audits of Contractors</u>. Program audits may be undertaken at the request of management. They may also be scheduled based on information developed during economy and efficiency audits, particularly audits of labor, materials, and equipment. Audits of resources will also develop information about the status of projects, which can be used in planning program audits. The reverse may also occur. Program audits may point to possible uneconomical or inefficient practices, which should be scheduled for review.

a. <u>Planning and Scheduling Program Audits</u>. No schedule or cycle is mandated for program audits. However, the execution of at least one program audit at each contractor location would aid in establishing whether management practices and internal controls are effective in achieving the goals and objectives included in the Department approved plans.

b.   Program Requirements at All Operating Levels. Approved institutional plans, financial plans, and project order agreements covering work for others govern each integrated contractor's work. Assigned programs are divided into projects and tasks for accomplishment. Management of projects and tasks should:

- develop goals and objectives;
- develop measurable criteria to determine and evaluate progress;
- establish target dates and milestones; and
- establish a reporting system to apprise management of performance.

Results stemming from work conducted under established tasks or projects can be reviewed at any level where objectives and measurement criteria were established and where data to measure achievements exist. The term "program audits" also encompasses audits of program subdivisions, such as projects and tasks, which are subject to measurement of results.

Without objectives and measurement criteria, a program review is not meaningful. However, it is possible to work with management to develop mutually acceptable objectives and measurement criteria, and then undertake a program review based on the guidelines in succeeding sections. The establishment of goals, objectives, and measurable criteria should be feasible for any aspect of work the Department's contractors perform, except perhaps basic research. However, even basic research projects should be based on detailed written plans and provide for technical evaluation of the documented results. The findings of such technical assessments should form the basis for judging the quality of research performed and for identifying new areas for future review.

c.   Objectives of Program Audits. The general objectives of a program audit are to:

- Assess whether the objectives of a proposed, new or ongoing program are proper, suitable, or relevant.
- Determine the extent to which a program or program subdivision has achieved the desired results.
- Assess the effectiveness of the program and/or of individual program components.
- Identify factors inhibiting satisfactory performance.
- Determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost.
- Determine whether the program complements, duplicates, overlaps, or conflicts with other related programs.
- Identify ways of making programs work better.
- Assess compliance with laws and regulations applicable to the program.
- Assess the adequacy of management's system for measuring and reporting effectiveness.

Program audits also include a review of contract provisions, and Department directives, as well as an evaluation of administrative controls that have a bearing on the attainment of specified goals and objectives.

d.   Program Audit Procedures. As a minimum, the following procedures should be used to accomplish a typical program audit:

- Conduct a preliminary survey of the program or project, or become familiar with the operations, verify its objectives, and identify the existing system or measuring effectiveness.
- Use the guidance in Chapter 10, as applicable, in conducting the preliminary survey. Additionally, review approved institutional plans, financial plans, and other program guidance.
- Compare stated goals and objectives for each project or task over the past 3 years. When goals and objectives have been repeated each year, determine reasons for failure to achieve the objectives in the prior periods. This comparison may disclose that the goals are not sufficiently specific to measure annual progress, the goals were unrealistic, or resources were not applied according to approved plans.
- Ascertain whether the current goals and objectives of the program or project are clearly stated in attainable terms and whether they are sufficiently specific to be measured against established criteria.
- Determine whether the measurement criteria or performance indicators are valid and sufficient to enable measurement of results and accomplishments.
- Ascertain, through appropriate tests, whether performance indicator data re accurate and reliable.
- If complete and measurable criteria are absent, ascertain and evaluate the adequacy of the basis on which management at the reviewed level determines whether the stated goals and objectives are met.
- Evaluate the adequacy of administrative controls that bear on the attainment of specified goals and objectives.
- Based on the results of the preceding review, determine the extent to which the desired level of results or effectiveness was achieved. When results fall short of expectations, examine the underlying causes of ineffectiveness. Develop or estimate the cost of eliminating or reducing the influence of validated causes of ineffectiveness.

3.   Reporting. The guidance provided in the OAS Report Style Manual covering audit reports can also be used in reporting on performance and program audits of integrated contractors.

D. *ASSURING COMPLIANCE WITH PROFESSIONAL STANDARDS*

The OIG can rely on audit work performed by Internal Audit as long as it can obtain assurance that the work meets professional auditing standards and other requirements. In general, this assurance will be obtained by reviewing external (peer) reviews, field office appraisals, and applicable audit reports; and by OIG assessment of the Internal Audit function.

1. <u>External (Peer) Reviews</u>. In accordance with standards established by the Institute of Internal Auditors (IIA), external reviews of Internal Audit should be conducted at IIA-specified intervals to appraise the quality of Internal Audit's operations. Qualified persons who are independent of the organization and who do not have either a real or an apparent conflict of interest should perform these reviews. These reviews should also assess how well Internal Audit complies with contractual audit requirements, normally the standard internal audit clause required by the DEAR, and with applicable professional auditing standards.

2. <u>DEAR 970.5232-3(i) Requirements.</u> To clarify the requirements of DEAR 970.5232-3(i) and to ensure uniform implementation, the Department's Acquisition Guide (dated March 2004), chapter 70c.4, defines Internal Audit responsibilities and placement to: (1) be independent; (2) be of sufficient size and have appropriate training to meet IIA standards; (3) conduct performance, financial-related, and other audits and reviews; (4) use cost allowability audit program guidance developed by the OIG (Exhibit B); (5) prepare an implementation design plan; (6) prepare annual audit plans; and, (7) provide annual audit summary reports.

3. <u>Appraisals</u>. DOE Order 224.2 requires the Heads of Field Organizations to appraise the Internal Audit function of the Department's integrated contractors under their jurisdiction. Specifically, the field office is required to evaluate the adequacy of coverage, technical competency, objectivity, independence and the work performed by Internal Audit.

4. <u>OIG Assessment</u>. The assessment of other appraisals or external reviews of Internal Audit should aid the OIG in deciding the extent to which reliance can be placed on audit coverage provided by Internal Audit. However, the OIG also needs to assess the work of Internal Audit as outlined in Chapter 14. This assessment should determine whether the work was done in accordance with professional auditing standards and that it met the audit objectives.

E. *PLANNING AND SCHEDULING CONTRACTOR AUDITS*

The OIG is responsible for developing an annual Department-wide audit plan using a risk assessment methodology that considers, among other factors, requests and recommendations for audit coverage from various officials within the Department. To avoid unnecessary duplication in audit coverage, the OIG coordinates with organizations having related functions, such as the Government Accountability Office (GAO), Department Headquarters functions and field offices, Internal Audit, and DCAA.

1. <u>Audit Planning and Risk Assessments</u>. Contractor annual audit plans should be based on risk assessment. Risk assessment by appropriate audit organizations will facilitate the best use of available audit resources. Annual audit plans based on

acceptable risk assessment methodologies should provide adequate audit coverage over those areas most susceptible to waste, fraud and abuse. This risk assessment should include attributes such as adequacy of internal controls, length of time since last audit, dollar value/materiality, changes of systems, and results of prior audits. In addition, audit organizations using this chapter should apply their own risk assessment that reflects their organization's unique needs, considerations, and requirements. The intent is to provide audit coverage over vulnerable areas on an annual basis. Additionally, Internal Audit should document their risk assessment process and reasons for classifying functional areas as having low or no risk.

More detailed guidance for how contractor Internal Audit should assess risk and develop annual audit plans is provided in Exhibit A. Internal Audit should provide annual audit plans to their appropriate field office or contracting activity and OIG representative by July 31of each fiscal year. To help with planning by Internal Audit, the OIG will provide planning guidance to the contracting activities and Internal Audit by February 15 for consideration during preparation of the contractor's annual audit plans.

2.   Scheduling Audits of Contractors. The overall audit objective is to provide comprehensive audit coverage by scheduling specific performance and other audits of DOE programs, projects, functions, and activities. The audits scheduled should be based on the risk assessment methodologies described above and not on an arbitrary cycle or timeframe. No specific schedule or cycle is mandated for completion of performance (economy & efficiency or program) audits as presented in this chapter. However, Internal Audit should plan to perform at least one such audit annually at each contractor location. Additional performance audits should be scheduled based on the results of the risk assessments and as audit resources are available.   Chapter 15 contains the policy and approach for OIG's signing the SCICs. Exhibit B illustrates a sample audit program for Internal Audit to use when conducting an allowable costs review. Audit work should be programmed to address the functional areas and audit objectives identified in Exhibit C. However, no specific timeframes are required. Rather, audits should be scheduled based on the results of the risk assessments.

AUDIT PLANNING AND RISK ASSESSMENTS

An annual Audit Plan is the Internal Audit Activity's (Internal Audit) annual schedule of planned activities. It is submitted to the Site/Operations Office by June 30 of each year of contract performance to identify the planned internal audit activities for the next fiscal year. In order to make the best use of audit resources, a risk analysis should be performed and documented to determine in which areas audits will be accomplished. The plan provides coverage of those areas most vital to the conservation and profitable employment of plant assets, and to the protection of Department of Energy (Department) interests. This risk analysis should consider the entire audit universe for the contractor.

The number of auditable units that comprise the audit universe coupled with limited audit resources prohibits us from performing audits of all auditable units. Consequently, we must review and evaluate the risk associated with each auditable unit in order to determine where the audit function's efforts should be concentrated. The following areas are essential in the determination of the risk level for the audit universe.

Quality of Internal Controls. Internal controls are the process designed to provide management with reasonable assurance regarding the entity's achievement in (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations. Key components of a control structure include: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring. Key components must be considered in assessing the quality of internal controls.

1. The control environment relates to the entity's values and philosophy. These attributes include integrity and values, management's attitude towards controls and its philosophy and operating style, the organization structure, commitment to competence, and personnel related policies and procedures. A good understanding of controls by management along with management's strong support for controls is necessary elements of a strong control environment.

2. The risk assessment component deals with the entity's identification and communication of risk to the organization. It involves setting consistent goals and objectives throughout the organization, identification of key success factors, identification and analysis of risks by management, and change management.

3. Control activities include reviews and approvals, management of functions and activities, information processing, physical and system safeguards, performance indicators, and segregation of duties. The specific controls are the particular policies and procedures relating to the processing of transactions that management has established to provide assurance its objectives will be achieved such as proper authorizations, adequate segregation of duties, adequate physical controls, etc

4. The component relating to information and communication involves internal and external sources of information, information processing and reporting, quality of information, internal and external communications, and means of communication.

5. Monitoring deals with ongoing monitoring on activities, separate evaluations, reporting of deficiencies, and improvement opportunities.

Financial Exposure/Materiality. The two pieces that comprise this factor are materiality and the economic environment (state of the economy and congressional direction). In determining financial exposure, primary consideration must be given to the significance of the dollar amount. Consideration should be given to the significance of an area in relation to the particular entity such as legal entity, operational unit, reporting unit, etc. In prioritizing the audits to be performed, financial exposure will be a significant factor.

Results of Previous Reviews. The results from previous reviews conducted by internal audit or the Office of Inspector General (OIG) have a significant influence on the requirements to reassess the function. Also, the results of the Department Operations Office's latest Business Management Oversight Program Review (performed annually for a number of contractor functions during a 2-week period), "For Cause" Reviews, and similar external reviews or assessments should be considered. If the prior audit or review indicates a strong control environment, a subsequent review may be postponed in order to concentrate audit resources in another area.

New or Changing Controls, Systems, Program, or Operations. A function's existing and future operating characteristics need to be considered in performing risk assessment. If existing operations are complex, there is more room for error or failure to accurately report results of the organization's activities. A change in management's philosophy without adequate internal controls being established could lead to undesirable results. Reorganization of responsibilities and activities could increase the potential for transactions to be reported and recorded incorrectly or not recorded at all.

Time Since Last Audit. A function that has not been audited by internal audit or is not audited periodically or regularly has a much higher risk of control weaknesses than one that has been reviewed annually.

Individual contractors may add other areas of risk exposure that apply to the site. Each of the identified areas of risk exposures should then be assigned a risk weight factor. Both the risk exposures and weight factors may vary from year to year and should be evaluated annually.

The next step is to determine for all auditable entities in the identified audit universe what level of risk they currently have. This should be on a consistent numeric scale. This rating of risk exposures is a difficult and time-consuming task. The level of exposure for each area of risk is determined as it applies to a particular auditable entity. The risk rating is then multiplied by its associated risk weight factor. The resulting risk factor scores are added to obtain a risk factor total. This total is a numeric representation of the risk exposure for a given auditable entity with the highest score representing the highest exposure/vulnerability. If the risk ranking process is used for audit selection it will provide documentation supporting internal audit decisions for audit coverage. The following example illustrates how the suggestions listed above could be applied:

INDIVIDUAL WEIGHT FACTORS OF RISK EXPOSURE/POTENTIAL RISK FACTORS

TOPIC	AUDIT	CORE MGT	IG/DOE OR REQUEST	NEW OR CHANGING CONTROLS, SYSTEMS PROGRAM OR OPERATIONS	FINANCIAL EXPOSURE	RESULTS OF LAST AUDIT	TIME SINCE LAST AUDIT	QUALITY OF INTERNAL CONTROLS	TOTAL RISK VALUE	TOTAL EST AUDIT DAYS
FINANCIAL MANAGEMENT										
Financial Acctg./Fiscal Year End				1	2	3	1	3	Req'd	130
Cash Management				2	4	2	3	3	44	
Accounts Payable				1	3	3	5	3	43	
Accounts Receivable				1	3	4	5	4	50	
Property Accounting				1	1	3	4	2	29	
Reimbursable Accounting				4	5	3	4	4	61	20
Financial Accounting and Reporting				2	5	3	4	4	57	
Payroll				5	5	4	2	5	68	30

1 = Very Low Exposure
2 = Moderately Low Exposure
3 = Neutral Rating
4 = Some Exposure
5 = High Exposure

Audit topics selected for review, depth, and breadth of coverage are dependent primarily on the resources made available to the internal audit office, particularly the quantity and quality of manpower. Care should be exercised to achieve an optimum balance between the breadth and/or frequency of coverage in any one area and the number of areas to be audited.

SAMPLE AUDIT PROGRAM FOR ALLOWABLE COSTS REVIEWS

I.   PURPOSE AND OBJECTIVE

The purpose of the cost allowability audit is to determine whether costs charged to Department of Energy (DOE) contracts are allowable, allocable, and reasonable per contract terms; Federal Acquisition Regulations (FAR) or OMB Circulars, as applicable, and DOE Acquisition Regulations (DEAR); and Cost Accounting Standards as implemented by the contract terms. Specific guidance covering the three criteria for allowability and example audit steps for select cost areas are included in Appendix A.

This program is intended for use by contractor internal audit activities. **The audit steps are general guidance and should be expanded or eliminated as necessary to fit the contractor's audit environment and risk assessment**. The program is intended to provide a logical sequence to the audit fieldwork and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and the audit's objectives for allowable costs reviews. It is expected that those portions of the audit that are covered in other audits will be referenced and incorporated in this review.

II.   AUDIT SCOPE

A.   This audit will be accomplished by:

1.   Obtaining the criteria for determining the allowability of costs.
2.   Assessing internal controls designed to ensure that only allowable costs are claimed under the contract.
3.   Testing transactions to determine if unallowable costs were claimed.

III.   AUDIT STEPS

A.   Preliminary Steps

1.   Follow local audit protocol for audit engagement notification.

2.   Evaluate operations to determine whether major changes have occurred in:

a.   Direct/Indirect charging procedures and practices.
b.   Management culture.
c.   Organizational structure by comparing current organization charts and charts from the prior year.
d.   Business volume, employee count, the ratio and number of direct and indirect employees.
e.   Current internal control practices with regard to unallowable costs and the flow of transactions.

          f.   Cost Accounting Standards (CAS) Disclosure Statements, if applicable.

          g.   Direct and indirect labor accounts compared to prior year's budget for evidence of undisclosed changes in labor charging practices.

3.   Perform the following Statement of Costs Incurred and Claimed (SCIC) analysis:

          a.   Reconcile the amounts in the SCIC to the general ledger (GL), subsidiary ledger, or trial balance. Obtain explanations for significant differences. Costs claimed in excess of amounts recorded in the financial systems would be questioned as unsupported.

          b.   Verify the mathematical accuracy of the SCIC.

          c.   Determine whether adjustments were made to the claimed costs that are not reflected certified SCIC. Followup on the adjustments and determine whether costs should be questioned.

4.   Analyze operating statement accounts by:

          a.   Comparing the current GL or trial balance account balances (and if applicable, within pools and bases) to prior years to identify any changes in accounting practices or unexplained disproportionate changes in relative dollar value and obtain explanations from management.

          b.   Identifying unallowable costs for current and prior year.

          c.   Comparing the ratio of unallowable costs to total costs of related cost elements or groupings (travel, consultants, etc.) for the current and prior year, and obtaining explanations for significant changes.

5.   Identify potential vulnerable areas from evaluating the following:

          a.   Prior year audit files.

          b.   Board or senior management meeting minutes for major decisions that affect the organization and operations for the year(s) being audited.

          c.   Discussions with senior management/legal counsel to identify legal proceedings that could impact cost allowabilities.

          d.   Company website, employee publications, press releases, and such for potential audit issues.

6.   Review areas covered under other audits by:

          a.   Identifying audit issues from DOE site offices, OIG, external auditors, DCAA, or internal auditors through discussions and reviews of audit reports that may affect the audited costs.

          b.   Identifying the floor checks or other labor audits covering the fiscal year (FY) and performed during the FY.

          c.   Identifying on-going and completed assist labor and subcontract audits pertaining to the FY being audited. Note any findings for follow-up. If needed, coordinate with the subcontract audit authority or contracting officer and request assist audits for labor, subcontract costs, and home office and other intermediate allocations.

      d.   Identifying other assignments such as operations/performance, information technology (IT), financial controls, and systems surveys which affect the scope of this audit.

      e.   Determining whether to rely on the work of others such as IG, DCAA, or external auditors and documenting:

- A copy of the report and/or written confirmation of the work performed.
- The period and costs covered.
- A summary of the result(s) of the audit(s).
- A statement of the degree of reliance placed on the work of others (a statement of the audit scope covered by this reliance).

7.   Evaluate contract provisions.

      a.   Look for indirect rate ceilings or cost categories that may not be billed directly on the contract(s). Note for comparison to any unexplained changes in charging patterns identified during the preliminary steps.

      b.   Obtain and review the DOE contract and appendices and prepare a listing of (i) expressly unallowable costs, (ii) costs with contractual limitations, which if exceeded, would be unallowable, (iii) costs requiring DOE approval.

8.   Conclude on the review of preliminary steps to determine the issues (activities/actions) that have had or may have had an impact of cost allowability.

B.   <u>Internal Controls</u>

Internal controls over major disbursement categories should be reviewed periodically, as applicable, to ascertain whether the system of controls established provides (i) reasonable assurance of efficiency and effectiveness of the disbursement process; (ii) for reliable financial reporting; and (iii) that transactions and costs incurred and recorded comply with applicable laws and regulations. Internal controls coverage may be provided by separate audit(s) scheduled and conducted as part of the annual internal audit plan.

The typical major disbursement categories are:

- Payroll
- Accounts Payable (Purchasing)
- Non-Purchase Order Areas (Procurement Cards, Check Requests, Special, Petty Cash, Other Process Specific)
- Travel

1.   Review the results from the Internal Controls review(s) over major disbursement areas and determine the risk associated with claiming unallowable costs on the SCIC. Evaluate changes in internal controls over unallowable costs since the last audit. Assess whether an internal controls review over unallowable costs is needed to be done as part of this cost allowability audit or whether it is sufficient to perform limited or concurrent transaction testing to support the auditor's assessment and understanding of the internal controls over unallowable costs.

2.   Obtain an understanding of the applicable internal controls over cost allowability in effect during the FY(s) being reviewed and document the policies, procedures, and systems for identifying costs as unallowable:

- Document account names, numbers, and descriptions, type of costs charged, and whether the account(s) are used to accumulate unallowable cost.
- Determine what funding is used to pay for these identified unallowable costs.
- Document the transaction flow for unallowable costs to determine if the contractor pays directly for the cost or if it is first paid through DOE's letter of credit.

3.   Determine which business systems, as defined by the DEAR, are required and have been reviewed and accepted by DOE. Determine the reasons for disapprovals of the systems.

4.   Document the conclusions reached on internal controls over unallowable costs and identify any internal control deficiencies that would impact cost allowability. Material internal controls weaknesses over unallowable costs should be reported.

C.   <u>Risk Assessment Determination</u>

Based on steps performed at III.A and III.B (preliminary and internal controls), assess risk associated with specific general ledger accounts, group of accounts, or departments. Some areas are considered to have significant inherent risks and should be included annually.

If risk of an unallowable cost is assessed at maximum (the internal controls are non-existent or ineffective to prevent the contractor from claiming unallowable costs), the auditor needs to perform extensive testing of transactions in order to reach a conclusion on the allowability of cost.

Select expense accounts for transaction testing and the sampling methodology to be used. It is expected that a recognized statistical sampling methodology be used to sufficiently reach a conclusion on the allowability of costs and permit the projection of unallowable costs. Valid statistical results can best be achieved when applied to a homogeneous universe. For certain cost categories, a judgmental sampling methodology may be used. In those circumstances, the rational for using judgmental sampling should be clearly documented in the auditor's workpapers.

Document the sampling technique, including confidence and precision level (if statistical), to be used on each account or group of accounts to obtain efficient use of resources.

D.   <u>Transaction Testing</u>

Total costs incurred should be identified, analytically reviewed by transaction type or account/resource category and may be grouped into the following major disbursement categories:

- Payroll
- Accounts Payable (Purchasing)
- Non-Purchase Order Areas (Procurement Cards, Check Requests, Special Disbursements, Petty Cash, Other Process Specific)
- Travel

The major disbursement categories may be further segregated into specific categories as identified in Appendix A. The nature, amount, and extent of the transaction testing as well as the sampling methodology used should be based on the results of the planning, internal control, and risk assessments sections of the program (III.A through III.C). In addition to testing of identified high-risk area, some transaction testing should be performed annually in major disbursement categories where the auditor has determined that the risk of claiming unallowable costs is low. The additional testing should be done to validate the assessment that risk is low and controls are functioning as intended. The nature, amount, and extent of additional transaction testing should be adjusted accordingly.

Appendix A provides guidance on attributes that should be evaluated when performing transaction testing. The Appendix A attributes listing is not intended to be all-inclusive and should be modified to fit the contractor's audit environment and risk assessment. Annual transaction testing should include tests of contractual provisions and limitations for unallowable cost being incurred and claimed.

E.   Audit Completion

1.   Follow local audit protocol for audit engagement completion.

APPENDIX A

GUIDANCE FOR ALLOWABLE COSTS TRANSACTION TESTING

Appendix A is divided into two sections. Section I provides general guidance for the determination of the allowability of costs and is applicable to any cost selected for review. Section II describes transaction testing for 14 common cost areas in the disbursement processes and **should be modified to fit the contractor's audit environment and risk assessment.**

I.   GENERAL GUIDANCE WHEN REVIEWING FOR ALLOWABILITY OF COSTS

The following 5 sections provide general guidance for reviewing any cost selected for determining cost allowability.

A.   General

1.   Was the cost for an actual item received or service rendered?

a.   Review supporting documentation to conclude that the cost represents an item received or effort provided.

b.   Review properly completed and approved vendor invoices, canceled checks, or other documentation to determine if the cost is supported.

c.   For equipment, confirm that the item exist and review receiving report and equipment inventory record.

d.   For material, review receiving report, bill of material, logs, quality assurance report, or stockroom records.

e.   If sufficient documentation cannot be obtained to support a cost, interview personnel to the extent necessary to conclude that the cost was allowable.

f.   If the auditor cannot be satisfied that the cost was incurred, the cost is considered to be unsupported and therefore unallowable.

2.   Is the cost properly classified by expense category?

a.   Determine if costs are identified and recorded in the appropriate expense category.

b.   Identify if a portion of the expense should be separately categorized.

3.   Are the dollar amounts accurate?

a.   Recompute extensions, allocations, and formulas to determine if the amount of the cost is accurate.

b.   Determine if the vendor invoice rates agree with prices established in the purchase order.

4.   Can the cost be traced to subsidiary and general ledgers?

      a.   Verify that the cost was properly recorded in the general ledger and any supporting subsidiary ledgers.
      b.   Verify that the cost was charged to the fiscal year in which it was incurred.

5.   Is the cost's treatment consistent with other similar transactions?

      a.   Evaluate whether the cost was treated consistent with similar costs.
      b.   Evaluate if the cost was recorded against the same expense code and expense category (direct/indirect) as like costs.

6.   Is the cost an accrual?

      a.   Determine if accruals are based on supported estimates.
      b.   Determine whether estimates appear to be significantly overstated or understated to compensate for a year-end funding excess or shortfall.
      c.   Determine if any improper accruals impacted the allowability of costs claimed.

B.   Applicability to the Contract

1.   Does the cost have special terms and requirements per the contract?

      a.   Refer list identified at III.A.7.
      b.   Determine if the cost represents a cost that the contract defines as unallowable.
      c.   Determine if the cost complies with applicable contract ceilings and limitations.
      d.   Determine if prior CO approval was obtained or prior CO approval is required for this cost.
      e.   Determine whether the cost violates CO rulings, interpretations, or guidance.

2.   Is the item or service related to the contract effort (allocable)?

      a.   Evaluate whether the item received or service rendered generally appears to be related to the contract effort. Be alert to costs that should have been charged to the other activities outside the scope of the contract.
      b.   Evaluate whether the item received or the service rendered was related to the account to which it was charged.
      c.   Determine whether the cost duplicates the types of costs covered by a management allowance or fee arrangement.

C.   FAR 31 – Cost Allowability (OMB Circular)

1.   The following costs are expressly unallowable per FAR 31, however, the auditor must check with the FAR for additional information:

- General Advertising/Public Relations
- Alcoholic beverages
- Bad debts
- Contingency reserves
- Contributions and donations
- Dividends or other profit distributions
- Excess depreciation
- Entertainment
- Fines, penalties, and mischarging costs
- First-class/business class air travel
- Goodwill amortization
- Insurance for catastrophic losses
- Interest and related taxes for refinancing
- Certain legal expenses
- Lobbying costs
- Losses on other contracts
- Organization expenses and related taxes for reorganizing
- Certain relocation and
- Certain taxes for federal income and excess profits

D.   Cost Accounting Standards (CAS) Allocability

1.   Does the accounting treatment comply with applicable CAS?
2.   Ascertain whether the cost complies with the applicable CAS requirements.

E.   Reasonableness

1.   Is the cost reasonable per FAR 31.201-3, *Determining Reasonableness*?

a.   Ascertain whether the cost exceeds that which would be incurred by a prudent person in the conduct of competitive business or as ordinary and necessary for the conduct of business or the contract performance.
b.   Determine if the cost followed generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations.
c.   Determine whether the costs comply with contract clauses and contractor's established policies and procedures.

II.   GUIDANCE FOR DETERMINING THE ALLOWABILITY OF COSTS IN SPECIFIC COST AREAS

The following 14 common cost areas are included in disbursement processes where unallowable costs may be claimed. The listing is not intended to be all-inclusive and should be modified to fit the contractor's audit environment and risk assessment. Attributes for each cost area is provided below for use when performing transaction testing of these areas. If it is determined that there is a high risk of incurring an unallowable cost in any of these areas, costs should be grouped into a homogeneous population for the appropriate sampling methodology and transaction testing.

A. Travel Costs
B. Relocation Cost
C. Dues, Memberships, Conferences, and Subscriptions
D. Public Relations and Advertising Costs
E. Payroll and Related Costs
F. Employee Welfare and Morale Expenses
G. Professional and Consultant Service Costs
H. Subcontract Costs
I. Purchased Labor
J. Lobbying Costs
K. Costs Related to Legal and Other Proceedings
L. Procurement Card Purchase
M. Accounts Payable Purchases
N. Costs Transfers

The guidance below is applicable and unique to the type of expenses under review:

A.   Travel Costs

1.   Review travel policies and procedures.
2.   Determine if travel costs were computed according to the reimbursement rates and are properly authorized and incurred in accordance with the travel policies and procedures.
3.   Determine whether proper documentation exists per FAR 31.205-46(a)(7). Receipts and information should include date and place such as city, town, and/or county, purpose of the trip, and name of person on trip and that person's title or relationship to the contractor.
4.   Determine whether costs for lodging, meals, and incidental expenses are consistently followed and are allowable per rates established by government travel regulations.
5.   Ensure that airfare costs are limited to the lowest customary standard, coach, or equivalent airfare offered during normal business hours. Exceptions are allowed for special circumstances and are set forth in FAR 31.205-46(d).
6.   Contractors may receive cash rebates or free tickets directly from airlines under a prefer vendor arrangement (not individual frequent flyer miles.) Such rebates and refunds should be 'returned' to the government in the same manner in which the original costs were incurred, where practical and be consistent with the contractor's policies for treating refunds and credits.
7.   If air travel is via private aircraft, determine whether they comply with FAR 31.205-46(d). Generally, travel via private aircraft in excess of the standard commercial airfare is unallowable unless an advance agreement has been executed.
8.   Ensure that proper documentation is maintained for all travel via private aircraft per FAR 31.205-46(e)(2).
9.   Review travel outside the Continental United States or any travel of more than 21 consecutive days for documentation of proper authorization.

B.   Relocation Costs

1.   Review costs for compliance with standards in FAR:

    a. FAR 31.205-35 defines relocation costs as costs incident to the permanent change of duty assignment for a period of 12 months or more of an existing employee or upon recruitment of a new employee.

    b. FAR 31.205-46 defines rules for travel related to relocation for the employee and the employee's family to the new duty station and for house hunting trips.

    c. FAR 31.205-46 allowable maximum government travel regulation per diem rates for lodging, meals and incidental expenses apply to contractor employees while traveling for house hunting trips and travel to the new duty station. These criteria do not apply to temporary quarters allowances because the employee is not considered to be on official business travel while in temporary quarters.

    d. Certain duty assignments, principally overseas locations, are accompanied by "location allowances." The location allowances represent compensation in addition to normal wages and salaries per FAR 31.205-6. Any travel costs to an overseas location should be considered travel costs in accordance with FAR 31.205-46.

2.   Compare the cost to the list in FAR 31.205-35(a) and (c) for specifically allowable relocation costs.

3.   Evaluate the contractor's policies and procedures and the employment agreements to determine reasonableness and compliance with FAR requirements.

4.   Determine whether relocation costs are reasonable and allocable, and meet the four criteria listed in FAR 31.205-35(b).

5.   Verify that a refund or credit was provided to the government if the 12-month requirement of a permanent change of duty assignment agreement for reasons within the employee's control requires was not met per FAR 31.205-35(d) except as waived by FAR 31.205-35(f)(4).

C.   Dues, Memberships, Conferences, and Subscriptions

1.   Review costs for compliance with standards in FAR:

    a.   FAR 31.205-43 generally allows dues, memberships, conferences, and subscriptions whose primary purpose is the dissemination of trade, business, technical, or professional information or the stimulation of production or improved productivity.

    b.   FAR 31.205-43 makes the following type of professional and technical activity costs expressly allowable:

        • Organizing, setting up, and sponsoring the technical and professional meetings, symposia, seminars, etc., including rental of meeting facilities, transportation, subsistence, and incidental costs.

        • Attending the meetings by contractor employees, including travel costs per FAR 31.205-46.

- Attending the meetings by individuals who are not contractor employees, provided the costs are reimbursed to them by their own employer and their attendance is essential to achieve the purpose of the meetings.

2. Ensure that costs of memberships in civic and community and lobbying organizations are unallowable.

3. Determine whether the minimum fee for membership in any university's industrial liaison program is reasonable and supported by evidence of bona fide services available or rendered. Under these programs, contractors are usually entitled to the use of university facilities, consultations with faculty members, copies of research reports, attendance at symposiums, and possibly other benefits.

4. Review the primary mission of the organization receiving the payments or benefits of membership fees, association dues, or the costs of donated time or materials from the contractor. Organizations generally fall into the following categories based on their mission:

- Bona Fide Trade or Professional Organizations – Organizations formed for the basic purpose of providing technical services to member contractors.
- Trade or Nonprofit Organizations Partially Engaged in Lobbying or Charitable Activities – The costs of membership are partially unallowable to the extent such payments are for the portion that is for lobbying or charitable activities.
- Organizations Dedicated to Lobbying or Charitable Activities – Costs for memberships in these organizations are unallowable per FAR 31.205-8 and FAR 31.205-22.

5. Ensure that contributions related to dues and subscription accounts are excluded from claimed costs. Professional organizations often include a suggested voluntary contribution as part of the membership dues. The amount in excess of the value established is an expressly unallowable contribution under FAR 31.205-8.

6. Determination of allowability requires knowledge concerning the purpose and nature of activity at the meeting or conference. Review expenses to determine whether the contractor maintain adequate records supplying such information on properly prepared travel vouchers or expense records supported by copies of paid invoices, receipts, charge slips.

7. Review costs to determine whether costs are for guest expenses for meals or other incidentals applicable to Federal employees. These costs should normally be questioned as unnecessary, and hence unreasonable costs, except under limited circumstances, since they are prohibited from accepting gratuities by Executive Order 11222 of 1965, Title 5 CFR 2635, and various departmental implementing directives.

8. Determine whether expenses associated with a particular meeting or conference represent allowable business expense under FAR 31.205-43(c) or unallowable social activity under FAR 31.205-14, *Entertainment Costs*, and should be made on a case-by-case basis, based on all pertinent facts. FAR 31.205-43(c)(3) disallows costs associated with the spouse of an attendee because the spouse's attendance is not essential to achieve the purpose of the meeting.

9.   For individuals on official travel, assure the meal expense is not included in both the claimed travel costs and subsistence costs included as part of organizing the meeting.

10.   For individuals not on official travel, assure that any meal expense is an integral part of the meeting as described in FAR 31.205-43(c), necessary for the continuation of official business during the meal period, and not a social function.

D.   <u>Public Relations and Advertising Costs</u>

1.   Review costs for compliance with standards in FAR:

a.   FAR 31.205-1(a) defines public relations as all functions and activities dedicated to: (i) maintaining, protecting, and enhancing the image of a concern or its products; or (ii) maintaining or promoting reciprocal understanding and favorable relations with the public at large, or any segment of the public. The term public relations include activities associated with areas such as advertising and customer relations.

b.   FAR 31.205-1(b) defines advertising as the use of media to promote the sale of products or services and to accomplish the activities referred to in FAR 31.205-1(d).

c.   FAR 31.205-1(d), (e), and (f) address the allowability of public relations and advertising costs. All advertising costs other than those specified in FAR 31.205-1(d) are unallowable.

d.   FAR 31.205-34 limits allowable advertising costs for recruitment.

e.   FAR 31.205-1(e)(3) makes costs for participation in community service activities such as blood bank drives, charity drives, savings bond drives, and disaster assistance allowable provided that the activity does not materially affect their other regular duties and responsibilities.

f.   FAR 31.204(c) prevents contractors from successfully claiming unallowable public relations costs under more favorable and broader cost principle coverage such as unallowable costs of ceremonies per FAR 31.205-1(f)(4) claimed as employee morale and welfare under FAR 31.205-13.

2.   Determine whether costs are allowable public relations costs such as cost incurred for (i) responding to inquiries on company policies and activities; (ii) communicating with the public, press, stockholders, creditors, and customers; and (iii) conducting general liaison with news media and government public relations officers.

3.   Costs of plant tours and open houses are allowable; however, ensure that promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities are not claimed.

4.   Ensure that costs not specifically identified as public relations cost such as materials and services found in the following cost categories are reviewed as public relations costs per FAR 31.205-1:

- Advertising Costs
- Compensation for Personal Services

- Contributions and Donations
- Employee Morale, Health, Welfare and Food Service and Dormitory Costs and Credits
- Entertainment Costs
- Labor Relations Costs
- Other Business Expenses
- Professional and Consultant Service Costs-Legal, Accounting, Engineering and Other
- Selling Costs
- Trade, Business, Technical and Professional Activity Costs

5. When reviewing the different categories of costs, the auditors should consider major factors related to the costs such as the nature of the service rendered, the function performed, the propriety of the base of allocation, and the basic consideration of reasonableness.

6. Determine whether costs fall into one of the categories of public relations costs claimed by a contractor for the preparation and printing of such items as plant newspapers and magazines, recruitment pamphlets, technical brochures, and contractor and product capability promotional items. Audits of claimed publications costs should be based on an appropriate examination of the contractor's policies and procedures. There are five broad categories into which most publications may be grouped:

- Employee Welfare and Industrial Relations – The most common publications of this type are regularly issued newspapers or magazines.
- Professional and Technical Articles – These publications are disseminated to a professional or technical type audience and generally take the form of dissertations on technical subjects that are related to the contractor's products or activities.
- Selling, Marketing, and Advertising – In those instances where the material provides little or no technical assistance to the recipient and is distributed to all customers and potential customers, the cost should be treated as advertising (FAR 31.205-1) or selling costs (FAR 31.205-38).
- Contractor and Product Capability – Promotional items differ from normal selling, marketing, and advertising publications in that they stress the superior capabilities of the contractor's facilities and/or personnel in research and/or development of new products.
- Public Relations – This category includes pictures, decals, and promotional material that emphasize the contractor's accomplishments in producing equipment or providing services.

7. Determine whether total public relations expenditures are reasonable, especially when there have been significant increases relative to prior years.

E. Payroll and Related Costs

1.   Determine whether executive compensation costs are claimed in accordance with ranges established by contract terms or FAR 31.205-6 and Office of Federal Procurement Policy (OFPP).
2.   Review employee receiving pay over maximum salary range of the employee's grade range.
3.   Review time sheets, payroll, personnel, and/or other records to determine if an employee was a real employee who worked on the contract effort.
4.   Determine if overtime and associated premium hours have been approved, if required by the contract terms.
5.   Determine if payroll costs were computed as reported on the timesheet and the pay rates identified in the personnel records.

F.   Employee Welfare and Morale Expense

1.   Determine if recreation program and exercise/wellness facility are available to all employees.
2.   Determine if the Employee Recognition/Service Awards cost complies with the contract and the contractor's established policies and procedures.
3.   Determine whether expenses and income generated by employee welfare and morale activities comply with FAR 31.205-13. If employee morale expenses fall into the category of entertainment then they are unallowable per FAR 31.205-14.
4.   Determine whether the cost of operating the cafeteria results in a break even scenario. A loss may be allowable, provided the contractor can demonstrate that unusual circumstances exist such that even with efficient management, operating the service on a breakeven basis would require charging inordinately high prices, or prices higher than those charged by commercial establishments.

G.   Professional and Consultant Service Costs

1.   Obtain vendor listing and 1099-Misc. forms and review for possible consultants not included on the listing.
2.   Analyze consultants' agreements, work products, and related records for sensitive consultants such as i) lobbyists; ii) sales/marketing; iii) management services (excluding CPA firms); iv) legal; v) technical/engineering; and vi) accounting, CPA firms, actuary, and insurance.
3.   Determine whether the activity engaged in by the consultant is strictly unallowable in accordance with the contract and applicable FAR and DEAR provisions.
4.   If the review of agreements and work products fails to establish a logical link to activity that benefits either the business as a whole or government contracts or programs in particular, then the cost and related consultant expenses should be questioned.
5.   If the nature of the consulting service appears to be allowable and allocable, work products should be reviewed for the reasonableness of the total costs charged.
6.   Trace selected consultant costs through the purchasing system to determine that procedures have been followed.

H.   Subcontract Costs

1.   Determine that payment is being made provisionally to ensure that the amount paid
        can be adjusted for the results of a future audit and request or perform the audit.

2.   Determine if subcontract charges were based on the subcontract's billing provisions.

I.   Purchased Labor

1.   Review the contractor's policy, with emphasis on the criteria used in determining
        whether personnel should be obtained from outside sources instead of direct hiring.

2.   Analyze the purchased labor during the current or most recently completed fiscal
        year, whichever provides sufficient information, to:

        - Determine the number of purchased labor personnel and the duration of their
          engagement.
        - Compare the number of employees on the contractor's payroll (in each
          classification of purchased labor involved) with the number of equivalent
          personnel obtained from outside sources.
        - Compare the cost per staff-year with the contractor's comparable personnel.
        - Determine whether the contractor's practices are equitable with respect to the
          use of purchased labor compared to the contract mix.

3.   Determine whether the use of purchased labor results in additional costs that are
        reasonable, necessary, and allocable to contracts.

4.   Verify that fringe benefits and other employee related costs are not allocated to
        purchased labor costs. Such costs are generally paid by the entity providing
        personnel performing the effort.

5.   Verify that indirect costs are allocated to purchased labor in a reasonable proportion
        to the causal or beneficial relationship of the pooled costs to cost objectives.
        Purchased labor must share in an allocation of indirect expenses such as supervision
        and occupancy costs, where there is a causal or beneficial relationship, and the
        allocation method must be consistent with the contractor's disclosed accounting
        practices.

J.   Lobbying Costs

1.   Identify whether contractor has a Washington DC area office and the purpose of the
        office. Review costs to determine allowability.

2.   Determine whether the cost was incurred to influence elections, public votes on
        issues, political parties, and legislation per FAR 31.205-22. Cost incurred to induce
        or tend to induce, either directly or indirectly, executive branch employees to give
        consideration or to act regarding a government contract on any basis other than the
        merits of the matter is unallowable.

K.   Costs Related to Legal and Other Proceedings

1.   Use the following guidance on the regulatory history for FAR 31.205-47 to consider
        applying the cost principle to specific cases:

- The government should not pay for wrongdoing, the defense of wrongdoing, or the results or consequences of wrongdoing by contractors.
- The government should not encourage litigation by contractors.
- Government contractors should not be put in a better position than contractors in the commercial area.
- The government should not discourage contractors from enforcing the government's rights and protecting the government's interests.

2.   Determine whether costs are allowable legal costs per the following categories:

- Reasonable costs associated with routine proceedings, not specifically addressed in the FAR cost principle.
- In-house legal staff handles routine inquiries from government agencies such as DCAA.
- Contract terms.
- CO directed.

3.   Determine whether costs are subject to ceilings defined by FAR 31.205-37(f).
4.   Determine whether legal costs under review are unallowable based on the outcome of the proceedings:

- In a criminal proceeding, a conviction.
- In a civil or administrative proceeding (including a qui tam proceeding) involving an allegation of fraud or similar misconduct, a finding of liability.
- In a civil or administrative proceeding not involving an allegation of fraud or similar misconduct, an assessment of a monetary penalty.
- In a proceeding held by an appropriate official of an executive agency for debarment or suspension of the contractor; rescission or voiding of a contract; or termination of a contract for default because of violation of or noncompliance with a law or regulation, a final decision unfavorable to the contractor.
- In any proceeding shown above which led to a settlement by consent or compromise.

5.   Determine whether legal costs are unallowable regardless of the outcome include:

- Defense or prosecution of claims or appeals against the Federal government (FAR 31.205-47(f)(1)).
- Organization, reorganization, mergers, or acquisitions, or resistance to merger or acquisition (FAR 31.205-47(f)(2) and FAR 31.205-27).
- Defense of antitrust suits (FAR 31.205-47(f)(3)).
- Defense or prosecution of lawsuits or appeals between contractors arising from such agreements as teaming arrangement, dual sourcing, co-production, or similar programs (FAR 31.205-47(f)(5)).
- Defense against stockholder suits that are related to contractor wrongdoing such as intentional harm to other persons, and instances where there has been a reckless disregard for the harmful consequences of an action.

- Patent infringement proceedings if not required by the contract (FAR 31.205-30, FAR 31.205-47(f)(6)).
- Defense against contractor misconduct addressed in another proceeding whose outcome determined the costs to be unallowable.
- Bid protest costs and costs of defending against protests are expressly unallowable under FAR 31.205-47(f)(8) for contracts awarded on or after October 7, 1996 unless per written directions from the CO.

6. Review legal proceeding costs to ensure that the contractor properly segregated costs for each proceeding regardless of the outcome that is anticipated.
7. If the outcome of a proceeding described in FAR 31.205-47(b) determines costs to be allowable, review total costs for reasonableness.

L. Procurement Card Purchase

1. Select a sample from the Procurement Card universe, excluding those accounts of costs already selected for specific review.
2. Review costs for proper documentation and allowability per FAR.
3. Pay close attention to items of personal nature and scrutinize these costs.
4. Ensure that purchases are made in accordance with the policies and procedures over purchase card transactions.

M. AP Purchases

1. Select a sample from the AP universe, excluding those accounts of costs already selected for specific review.
2. Review costs for proper documentation and allowability per FAR.
3. Refer to specific areas in Sections A to K related to types of costs in the sample for additional guidance to items required for the review.

N. Transferred Cost

1. Select a sample from the account(s) for cost transfers in and out (inter/intra organizational transfers).
2. Obtain an understanding of the transfer process.
3. Review costs for proper documentation and allowability per FAR.
4. Ensure that transferred costs are allowable and do not duplicate the types of costs that are covered by any contractual management allowance or fee arrangements.
5. Incorporate results of Home Office reviews from other audit.

TYPICAL CONTRACTOR AUDIT AREAS

This exhibit presents implementing guidance relating to the Office of Inspector General (OIG's) audit strategy for Department of Energy (Department) contractors. It identifies typical contractor functions and suggests audit objectives for each function and subfunction. It also serves as guidance to Internal Audit Activities (Internal Audit). Its intent is to facilitate the planning and auditing of reviews performed at Department contractors by Internal Audit or contractually procured audit services.

AUDIT PLANNING AND RISK ASSESSMENTS

Contractor audit plans should be based on risk assessment. Risk assessment by appropriate audit organizations will facilitate the best use of available audit resources. Audit plans based on acceptable risk assessment methodologies should provide adequate audit coverage over those areas most susceptible to waste, fraud and abuse. This risk assessment should include attributes such as adequacy of internal controls, length of time since last audit, dollar value/materiality, changes of systems, and results of prior audits. In addition, each audit organization using this exhibit should apply its own risk assessment that reflects its organization's unique needs, considerations, and requirements. The intent is to provide audit coverage over vulnerable areas on an annual basis. A more complete discussion of risk assessment is presented in Exhibit A of this Chapter. Additionally, Internal Audit should document their risk assessment process and reasons for classifying functional areas as having low or no risk. The resulting audits should be performed in accordance with professional auditing standards. Compliance with professional audit standards will permit the OIG's reliance on the work of internal audit staffs. Department of Energy Acquisition Regulation (DEAR) 970.5232-3(i) and the Acquisition Guide identify specific internal audit requirements as applicable to Department contractors.

CONTRACTOR FUNCTIONS AND AUDIT OBJECTIVES

This section identifies contractor functions subject to internal audit. The following management areas represent the major contractor functions.

Financial Management	Safeguards & Security Management
Procurement Management	Environment, Safety & Health Mgt.
Human Resource Management	Emergency Management
Construction & Facilities Management	Government Property Management
Conservation Management	Quality Assurance Management
Data Processing Systems	Traffic, Fleet & Packaging Management
Information Management	Planning & Budget Management
Support Services	

Typical functions and subfunctions and audit objectives are described in the following sections. This information is intended to help Internal Audit define the scope and objectives of each audit.

Although audit objectives are provided for each function, the following general objectives are applicable to all functions.

- Determine compliance with laws, regulations, and contract provisions that (a) govern the acquisition, management, and use of resources; or (b) have a material effect on financial information.

- Determine whether audited functions are being managed efficiently and effectively, and within the terms of the Department contract.

- Determine whether programs, projects, and other activities are functioning as intended and are accomplishing their stated purpose or objective.

- Determine whether internal controls are adequate, and will prevent, identify and report unallowable and unreasonable costs.

- Determine whether allowable costs are addressed through either a single audit or within other audits.

Although audits of programmatic activities can be performed at the contractor level, the audit coverage would be limited because program direction is at the Headquarters level (not the field office level) and more than one contractor usually carries out such activities. Therefore, program areas have not been included in this exhibit (see Chapter 10 of this Manual for guidance on performance audits).

A00   <u>FINANCIAL MANAGEMENT</u>

Financial management includes all activities related to the financial operations except for budgetary activities. Suggested audit objectives include determining whether:

- (A00A) Revenues and receipts are accurately recorded in accordance with requirements;

- (A00B) Assets and liabilities are rights and obligations of the entity;

- (A00C) Financial reporting conforms to the Department policies and procedures; and,

- (A00D) Proper controls exist for all assets to safeguard against fraud, waste, abuse, unauthorized use, and misappropriation.

A01   <u>Cash Management</u>. This function encompasses all activities regarding the management and physical control of cash and negotiable items. Suggested audit objectives include determining whether:

- (A01A) Activities include internal controls which ensure prompt depositing of cash; proper control, accounting and processing of cash related transactions; proper management of letters of credit and cash advance transactions; and credit card controls;

- (A01B) Cash is safeguarded against waste, loss, unauthorized use and misappropriation;

- (A01C) Adequate controls over imprest funds are in place;

- (A01D) Cash balances are properly stated;

- (A01E) Banking services are being received at lowest cost to the government; and,

- (A01F) Cash balances, etc., are at the minimum amount necessary.

A02   Accounts Payable. The function encompasses all activities regarding the management of accounts payable systems. The activity includes evaluation of financial accounting systems related to payments, including travel expenses and liquidation of contractually incurred liabilities. Suggested audit objectives include determining whether:

- (A02A) Payments are made in accordance with contractual requirements;

- (A02B) Internal controls exist to assure that timely, accurate, and proper payments are made;

- (A02C) Disbursements are recorded and accounted for properly;

- (A02D) Disbursements are made only for authorized expenditures; and,

- (A02E) Disbursements include control systems that ensure prompt payment.

A03   Accounts Receivable. This function includes all receivables associated with employee accounts, work for non-DOE entities, commercial accounts, and other miscellaneous receivables. Suggested audit objectives include determining whether:

- (A03A) The receivable balances are accurate and supported by subsidiary records;

- (A03B) All receivables are identified and recorded;

- (A03C) Adequate internal controls exist for the aging, collecting, and write-offs of receivables; and,

- (A03D) The recognition and handling of uncollectable accounts conform to contractual requirements.

A04   Property Accounting. This function includes the recording and classifying of all real and personal property in the accounting system. Suggested audit objectives include determining whether:

- (A04A) Systems are in place to track the movement of property;

- (A04B) Periodic inventories are conducted and reconciliations performed between actual inventory levels and accounting system values;

- (A04C) Property classification and reporting conforms to Departmental requirements; and,

- (A04D) "Write-offs" of lost or damaged property conform to Departmental requirements and approved contractor policy.

A05   Reimbursable Accounting. This function includes evaluation of financial accounting systems associated with non-DOE funded work for others as addressed by DOE Order 534.1. Suggested audit objectives include determining whether:

- (A05A) Funding documents authorizing reimbursable work are compatible with work scope and provide funding consistent with Departmental policy;

- (A05B) Direct and indirect costs are properly charged, to ensure full cost recovery;

- (A05C) Incurred costs accurately reflect work activity;

- (A05D) Work activity is within mission scope of DOE and acceptance of work meets Departmental requirements; and,

- (A05E) Work is not performed in advance of, or in excess of budgetary resources

A06   Financial Accounting and Reporting, and Yearend Reviews. This activity includes the recording and classifying of all assets, liabilities, operating costs and equity in the accounting system, account reviews for unusual entries, applicable Cost Accounting Standards, compliance, and validations of balances. Suggested audit objectives include determining whether:

- (A06A) All financial transactions are identified, classified and recorded properly;

- (A06B) Reliable financial reports are prepared;

- (A06C) Accountability of assets is maintained;

- (A06D) The financial accounts are accurate and in accordance with approved accounting practices and contractual requirements;

- (A06E) Accruals during the fiscal year would significantly distort the validity of amounts shown on the Statement of Costs Incurred and Claimed (see also Chapter 15 of this Manual);

- (A06F) The reconciliation of all main financial accounting areas has been performed;

- (A06G) Financial reports are accurate and are supported by the detailed financial records;

- (A06H) Disclosure statement is complete, current and accurate, and has been approved by the Department;

- (A06I) Allowable costs are addressed by a single audit; and,

- (A06J) Allowable costs are addressed by steps within all audits.

A07   Payroll. This function includes all activities associated with the processing of time and attendance sheets and maintenance of pay and leave records. Suggested audit objectives include determining whether:

- (A07A) Withholding and deductions are based on evidence of appropriate authorization;

- (A07B) Compensation, gross pay, withholdings, deductions and net pay are correctly computed and are within contractual requirements;

- (A07C) Payroll costs and related liabilities are correctly accumulated, classified and summarized in the accounts in the appropriate period;

- (A07D) Controls exist to prevent duplicate payments, overpayments, and/or to fictitious employees; and,

- (A07E) Proper segregation of duties exist.

A08   Travel. This function relates to all types of authorized travel charged directly to a contract. Such travel should only be accomplished for essential purposes and at reasonable cost to the government. Suggested audit objectives include determining whether:

- (A08A) Travel is properly authorized, i.e., domestic and foreign; and,

- (A08B) Travel costs charged to the contract are in accordance with contractual requirements.

A09   Cost Distribution System. This function includes the system used to develop, record, and assign accurate costs to the final cost objective. Suggested audit objectives include determining whether:

- (A09A) Costs are properly accumulated, distributed, and recorded;

- (A09B) Internal controls exist to identify, prevent, and report unallowable and unreasonable costs;

- (A09C) The cost distribution base is in accordance with accepted accounting principles;

- (A09D) Salary and labor costs (from payroll) are properly distributed to Departmental accounts and job orders;

- (A09E) Material costs, and other direct costs, are properly distributed;

- (A09F) Overhead expenses are properly recorded and distributed to Departmental accounts, work orders and program classifications;

- (A09G) The proper production cost is allocated to product inventory cost; and,

- (A09H) The ending inventories are properly priced as required by applicable regulations and policies.

B00   PROCUREMENT MANAGEMENT

Procurement is guided by the rules, regulations, policies, procedures and limitations provided in the Federal Acquisition, the DEAR, specific guidance issued by the Department, the terms of the negotiated contract, and the contractor's Department approved procurement system. For auditing purposes, procurement management is segregated into acquisition, receiving and inspection, and administration.

B01   Acquisition. Contractor procurement actions should result in the most economical acquisition of supplies, services, and equipment and otherwise be in the best interests of the government. Suggested audit objectives include determining whether:

- (B01A) The contractors procurement practices are in accordance with Departmental policies;

- (B01B) Unusual features such as price escalation and price incentives were included;

- (B01C) Preaward cost and price analysis or audits required by the DEAR or FAR were conducted;

- (B01D) Acquisitions satisfy procurement objectives--e.g., verification of capability, price determination, and approvals; and

- (B01E) Consulting agreements, service contracts and contractual revisions are reasonable and, consistent with programmatic requirements.

B02   Receiving and Inspection. Goods and services provided by subcontractors and vendors should be properly authorized, received, accounted for, and controlled in accordance with established procedures. Suggested audit objectives include determining whether:

- (B02A) The goods and services received were accounted for on a timely basis;

- (B02B) Only authorized goods and services are accepted and/or paid for;

- (B02C) Satisfactory physical controls exist over materials in the receiving area;

- (B02D) Proper controls exist over rejected and/or reworked materials; and,

- (B02E) Goods and services are inspected to determine conformance with specifications and other contractual conditions.

B03   Administration. Each contractor's procurement administration should comply with requirements, regulations, and good business practice. Suggested audit objectives include determining whether:

- (B03A) Procurement modifications and change orders are justified, properly documented, and serve the economic interest of the Department;

- (B03B) Applicable DEAR and FAR procedures were followed;

- (B03C) Termination claims were audited and results were effectively used in claims settlement negotiations;

- (B03D) Proper procedures exist for the timely closeout of contracts; and,

- (B03E) Subcontractor financial and technical performance is monitored.

C00   HUMAN RESOURCE MANAGEMENT

Human Resource Management focuses on whether actual practices and contractor policies governing staffing, education and training, compensation, labor relations and benefits, pension and insurance administration are in accordance with the contract provisions and applicable laws and regulations.

C01   Staffing. Staffing includes activities associated with recruiting, classifying, reassigning and/or promoting employees as well as activities related to reviewing, approving and executing necessary disciplinary actions to maintain an effective work force. Suggested audit objectives include determining whether:

- (C01A) Controls sufficiently ensure the recruiting, hiring, classifying and retaining of employees are consistent with programmatic requirements; and,

- (C01B) Appropriate Departmental and corporate policies are followed in hiring contractor employees.

C02   Education and Training. Education and Training includes activities associated with employee development and those management activities associated with human resource development. Suggested audit objectives include determining whether:

- (C02A) An effective training program exists to provide for the design, acquisition, and delivery of quality training and organizational development experiences;

- (C02B) Educational opportunities are consistent with Departmental policies and contractual requirements; and,

- (C02C) The training program requires courses needed to meet professional standards and other job related requirements as identified by law, DOE regulations or corporate policies.

C03   Compensation and Salary Administration. Compensation includes activities directed towards assuring salaries are properly determined and positions are organized in the most efficient manner and related programs, such as, workers compensation, relations and salary scales, are properly administered. Suggested audit objectives include determining whether:

- (C03A) Salary and wage structures are in accordance with the personnel policy described in the contract and applicable DOE policies;

- (C03B) Job classification and promotion systems are administered equitably at all levels and in accordance with corporate policy;

- (C03C) Employees are hired and retained only at authorized rates and benefits levels;

- (C03D) Disciplinary mechanisms are in place to enforce corporate policies; and,

- (C03E) Termination policies are in place that are consistent with the contract and reflect Departmental policies.

C04   Labor Relations. Labor Relations includes activities of negotiating and making agreements with employee organizations on the rights, benefits and entitlements of employment. Suggested audit objectives include determining whether:

- (C04A) The negotiating process resulted in an agreement that is mutually satisfactory to the Department, contractor and the labor organizations; and,

- (C04B) Independent cost estimates of the proposed agreement have been developed.

C05   Benefits, Pension and Insurance Administration. This function includes management activities associated with employee benefit programs. Suggested audit objectives include determining whether:

- (C05A) Employee benefit programs have been approved by the Department and are efficiently, effectively and economically managed within contractual agreements; and,

- (C05B) Pension and insurance programs are administered and controlled in accordance with Departmental policies, legal requirements and contract provisions.

D00   CONSTRUCTION AND FACILITIES MANAGEMENT

This function includes activities associated with facility planning, engineering, improvement, and management. It would also include activities related to the design and construction of new facilities or modification of existing facilities to perform Departmental missions and programs. The major activities included are:

D01   Site Development Planning. This includes all contractor activities related to developing, maintaining, and administering the Department's site development planning program. It includes activities such as the preparation of site development plans; reviewing site construction projects;

space allocation; conformance with the approved site plan; and maintaining an up-to-date site development plan library. Suggested audit objectives include determining whether:

- (D01A) The overall activity ensures the efficient use of land, facilities, and utilities and also ensures that the priorities and scope of the planned construction activities meet the approved operational objectives; and a system is in place to adjust site development plans to reflect changes in mission assignment.

D02   Construction Management. This includes primary activities such as preconstruction planning, architect-engineer (A-E) services, and construction project management. Other activities performed consist of administration of A-E and construction support contracts; reviewing project management plans; performing technical engineering and cost analyses, evaluating planning and construction methods; assuring compliance with design criteria; performing acceptance/operational tests in connection with final acceptance of the facility; and evaluating and making determinations regarding proposed change orders or contract modifications. All activities are performed to ensure that schedule, cost, construction methods and procurement plans are compatible with operational requirements, funding plans, criteria, scope of work, applicable DOE directives and Federal laws, and that construction activities are accomplished effectively and efficiently. Suggested audit objectives include determining whether:

- (D02A) Justification and approval exists for Titles I, II, and III engineering services;

- (D02B) Adequate competition for engineering services acquired externally existed;

- (D02C) Design errors were corrected at the least cost to the government;

- (D02D) Construction completion schedules and milestones were adhered to;

- (D02E) Status reports to management were timely and accurate;

- (D02F) Construction progress is monitored by qualified personnel using approved techniques to track cost and schedule performance;

- (D02G) Design requirements were and are being met;

- (D02H) In-process inspections were of adequate quality, at appropriate intervals, documented, and results reported to the proper individual(s); and,

- (D02I) Final completion inspections were performed without undue delay and that construction errors were documented and corrected at minimal cost to the government.

D04   Plant and Facilities Management. Facility maintenance activities assure proper maintenance of Government-owned, leased or controlled property. Suggested audit objectives include determining whether:

- (D04A) The plant maintenance program is in accordance with DOE regulations and corporate policies and is adequate to prevent downtime, maintain health and safety standards, preserve government-owned property, and best use maintenance resources;

- (D04B) The capital asset replacement program is realistic, complete, and followed to assure economical operations;

- (D04C) Excess facilities have been identified to DOE; and,

- (D02D) A system is in place to identify maintenance projects requiring a Davis-Bacon decision.

E00   CONSERVATION MANAGEMENT

Conservation Management includes the contractor's efforts, plans, programs, and projects designed to conserve resources of all kinds and to make significant improvements in the consumption efficiency of those resources. Suggested audit objectives include determining whether:

- (E01) Conservation plans are in accordance with DOE policies, applicable laws and regulations and corporate policies;

- (E02) Conservation goals were realistic and progress is measurable;

- (E03) Conservation savings reports are timely and accurate; and,

- (E04) The contractor has a viable program for conservation awareness and for soliciting conservation suggestions from employees.

F00   DATA PROCESSING SYSTEMS

This includes all activities related to the management and operation of multi-program (general purpose) computer facilities, specifically, equipment acquisition, maintenance and equipment utilization, software and systems development, applications systems, computer security, computer operations and administration, microcomputers and local area networks.

F01   Equipment Acquisition. The acquisition of electronic data processing (EDP) equipment begins with the initial planning process for a new or enhanced system or application or the replacement of existing equipment. Suggested audit objectives include determining whether:

- (F01A) The equipment acquisition process considers all relevant factors;

- (F01B) The resultant decision is cost effective, provides the needed capabilities, and fully supports operational objectives; and,

- (F01C) Capital budgets and prioritization of needs are based on cost effectiveness, giving appropriate weight to replacement.

F02   Maintenance and Equipment Utilization. This function includes those specialized maintenance activities involving EDP equipment and the actual and projected rate of usage versus available capacity. Suggested audit objectives include determining whether:

- (F02A) There is a satisfactory system for reporting equipment utilization and downtime;

- (F02B) Utilization reporting is accurate and complete;

- (F02C) Management has acted effectively to reduce downtime;

- (F02D) Inoperative and idle equipment is identified and repaired or disposed of;

- (F02E) There is a satisfactory system for reporting equipment malfunctions, repairs, and maintenance; and,

- (F02F) The mix of in-house and vendor repairs and maintenance minimize cost.

F03   Computer Security. This function includes all aspects of security associated with the computer hardware, such as: access controls, physical protection of the equipment, software security and data file access. The following audit objectives may apply and should be considered for other areas such as: maintenance and equipment utilization, computer operations and administration, systems and software development, applications systems, microcomputers and local area networks. Suggested audit objectives include determining whether:

- (F03A) Access to data files and programs is limited to those individuals authorized to process or maintain particular systems;

- (F03B) Access to computer hardware is limited to authorized individuals;

- (F03C) The location, layout, and physical construction of the computer installation and the fire prevention, detection, and fighting techniques provide adequate physical protection;

- (F03D) There is adequate, regular, supervisory review of access and use activity and prompt review and investigation of violations and procedures for access and use;

- (F03E) Controls are adequate to ensure processing and output are complete and accurate; and,

- (F03F) Controls provide reasonable assurance of continued operations in the event of damage or disaster, including backup, recovery and off-site storage procedures for programs and data.

(F04)   Computer Operations and Administration. This function includes the overall administrative management of the computer facility. Suggested audit objectives include determining whether:

- (F04A) Hardware errors are affecting the processing of transactions or the storing and accessing of data;

- (F04B) The computer installation has a systems procedures manual which covers areas such as operations and security;

- (F04C) There is compliance with recharge cost system requirements; and,

- (F04D) Controls provide reasonable assurance that copyright laws covering proprietary commercial software are being observed.

F05   Systems and Software Development. This function includes those activities necessary to acquire and develop software. Suggested audit objectives include determining whether:

- (F05A) The National Energy Software Center and other specialized computer software centers are researched for the availability of similar programs, or common-use portions of software programs, before software applications development is undertaken internally or purchased;

- (F05B) Internal software development has occurred only in instances when the software could not be acquired in a more economical manner;

- (F05C) Software development has followed the standards for vocabulary, programming, debugging, and documentation;

- (F05D) Implementation of systems have adequate application controls;

- (F05E) Development of systems meet management objectives or operate in accordance with original specifications;

- (F05F) Implementation of systems have been adequately tested; and,

- (F05G) Implementation of systems that are susceptible to unauthorized modification have been identified.

F06   Application Systems. This function includes the design, testing, conversion and maintenance of new or modified applications. Suggested audit objectives include determining whether:

- (F06A) Input controls provide reasonable assurance that data received for processing by EDP has been properly authorized, converted into machine-readable form, and that data (including data transmitted over communication lines) has not been lost, suppressed, added, duplicated, or otherwise improperly changed;

- (F06B) Processing controls provide reasonable assurance that data processing has been performed as intended for the particular application, that all transactions are processed as authorized, that no authorized transactions are omitted, and that no unauthorized transactions are added;

- (F06C) Output controls reasonably ensure the accuracy of the processing result and receipt of the output by only authorized personnel;

- (F06D) Maintenance (updating and changing) of applications is adequately controlled and documented; and,

- (F06E) Applications documentation, systems documentation, program documentation, and operations documentation are adequate to provide a sufficient understanding of these particular areas.

F07   Microcomputers. This function includes the management of laptop, portable, and transportable computers. The audit objectives should consider whether these computers were acquired at reasonable cost, are utilized and controlled to a reasonable extent, and whether certain controls, such as adherence to copyright laws and backup of programs and files, are operational.

F08   Local Area Networks. This function includes the management and administration of computer networks. In addition to the audit objectives listed for microcomputers, suggested objectives include determining whether:

- (F08A) The network has an approved computer security plan;

- (F08B) Equipment was acquired in accordance with Departmental regulations and corporate policies;

- (F08C) The network design and implementation promote economy and efficiency of operations;

- (F08D) Network security provides access controls and protects software and data at levels defined by Departmental regulations and corporate policies;

- (F08E) Software copyright laws and usage restrictions are adhered to; and,

- (F08F) Backup and recovery procedures are provided at the level appropriate for the data processed or stored on the network.

G00   INFORMATION MANAGEMENT

G01   Telecommunications. This category includes activities associated with determination and installation of the Department's telecommunication requirements for data (records), voice (telephone), and radio/electronic communications. Audit objectives should focus on proper planning, adequacy and competency of management, appropriate budgeting, proper utilization, and use of good acquisition strategy. Due to the highly technical nature of this area, technical expertise outside the audit team may be necessary.

G02   Records Management. This activity includes those activities related to records inventory, micrographics and protection of vital (classified and unclassified) records. The audit objectives are to determine whether records are maintained, used, and stored in an effective, efficient, and authorized manner and to determine compliance with records inventory and disposition schedules.

G03   Printing, Graphics, and Photography. This includes the activities associated with the internal production and/or acquisition of services and equipment for printing and publishing of technical and scientific reports, administrative documents, and forms; preparation of visual presentations such as view graphs, 35mm slides, supporting photography, and copying. Suggested audit objectives include determining whether:

- (G03A) Printing, graphics, and photographic services are being obtained at least cost; and,

- (G03B) The size of the printing, graphics, and photographic staffs is reasonable for the volume of output produced.

G04   Public Information. This includes those contractor activities associated with providing information to the public and the news media. Audit objectives are to determine whether the public information function is adequately staffed, appropriately managed, and properly protects the interests of the contractor and the Government when releasing essential information to concerned parties.

G05   Forms Management. This includes those activities that design, approve and monitor forms. Suggested audit objectives include determining whether:

- (G05A) Forms meet the following standards of design and use;

- (G05B) Forms conform with applicable standards, guides, and principles set forth by GSA;

- (G05C) Controls provide reasonable assurance that forms will employ standard equipment for writing, mailing, and filing, and minimize exceptions such as legal size forms; and,

- (G05D) Standards and procedures exist for the approval and identification of forms.

H00   SAFEGUARDS AND SECURITY MANAGEMENT

This function includes all contractor activities associated with physical and technical security, international safeguards, personnel security clearance programs, and document classification. The audits should focus on evaluating the control systems for assuring adequate protection of nuclear weapons, materials, facilities, and transportation systems, controlling technology related to the Department's area of responsibility, and limited access to classified data only to cleared personnel with the need to know. The purpose of these audits would be to ensure that classified activities and information are safeguarded against loss or unauthorized use. The definitions and audit objectives for the major activities included under this function are as follows.

H01   Physical Security. This function includes all activities for ensuring protection of nuclear weapons, materials, and transportation systems against loss through sabotage, theft, or unauthorized use. It includes protective security or guards, whether provided by separate contract, subcontract, or by the contractor's own employees. Suggested audit objectives include determining whether:

- (H01A) The contractor has implemented and supports an employee security awareness program;

- (H01B) Special nuclear material, as defined in Atomic Energy Act of 1954, is adequately protected at all times as required by Departmental regulations;

- (H01C) The contractor's facility is covered by a security plan or program that ensures

- protection for employees and for Government owned assets against theft; and,

- (H01D) A mechanism exists for the prompt reporting to DOE of violations, infractions, and other problems of a physical security nature.

H02   Personnel Security. This function includes all activities for ensuring that access to classified information, facilities, and activities is limited to persons with a need to know and proper security clearances. Related activities such as "visitor control" and "reception" should also be included. Suggested audit objectives include determining whether:

- (H02A) The contractor has implemented and supports a viable personnel security program;

- (H02B) Only the necessary employees possess security clearances;

- (H02C) Facility access is permitted only to authorized individuals;

- (H02D) A reporting channel exists for communicating matters of personnel security concern to the appropriate Departmental official; and,

- (H02E) Personnel security employee files are complete and current.

H03   Document Classification and Declassification. The objective is to ensure that sensitive information developed in the Department's programs is identified, properly classified, and controlled as required by DOE regulations and corporate policies.

H04   Technical Security. This activity is the Technical Surveillance Countermeasures (TSCM) Program. Departmental elements shall use all available means including physical security, technical surveillance countermeasures, personnel security, and communications security, including automatic data processing hardware and software security measures, to

properly protect classified matter. Each Departmental field office should have appointed a TSCM operations manager to manage the local program. Each integrated contractor should have appointed a TSCM officer. Suggested audit objectives include determining whether:

- (H04A) The contractor has appointed a TSCM officer;

- (H04B) The contractor and the specific TSCM officer maintain a technical surveillance countermeasures program; and,

- (H04C) The TSCM program is operating effectively.

I00   ENVIRONMENT, SAFETY, AND HEALTH MANAGEMENT

This function includes all contractor activities associated environmental protection, safety, fire protection, health, hazardous waste management, and emergency preparedness programs. The audits consider control systems which (1) assure compliance with Federal, state, and local environmental protection, safety and health statutes, and related DOE orders and regulations; (2) protect against accidental loss or damage to Departmental assets; (3) protect the well being of operating personnel and the general public; (4) analyze hazards; (5) assess and mitigate risks; and, (6) collect, evaluate and disseminate accurate and reliable information regarding performance in these areas. The definitions and audit objectives for the major activities are described in the following sections.

I01   Compliance. The audit objective is to determine whether the program complies with Federal, state, and local environment protection, safety, and health statutes and related Departmental orders, policies, and regulations. In addressing this issue, auditors must be aware of environmental, health and safety requirements that the Department may have negotiated with the Environmental Protection Agency and state or local governments.

I02   Employee Safety and Health. In auditing employee safety and health, consider whether the occupational or industrial medical program:

- (I02A) Ensures the health and safety of employees in their work environments through the application of occupational medical principles; and,

- (I02B) Evaluates the physical and mental fitness of employees to perform job assignments without undue hazard to themselves, fellow employees, or the public at large.

I03   Hazard Analysis. In auditing hazard analysis, consider whether the analysis:

- (I03A) Identified potential hazards;

- (I03B) Analyzed potential consequences of identified hazards;

- (I03C) Eliminated, controlled or mitigated the identified hazards; and,

- (I03D) resulted in documented management authorization of the DOE operation based on an objective assessment of the hazard analysis.

I04   Information Reporting. In auditing information reporting, consider whether the information reporting system provides for:

- (I04A) Investigation and evaluation of occurrences to their causes and the appropriate measures to prevent recurrences and improve the safety of DOE and DOE contractor operations;

- (I04B) Early, complete, and factual information on incidents or occurrences as a basis for (a) reports to the Secretary, Congress, and other Federal agencies; and, (b) where appropriate, informing the public;

- (I04C) Adequate information on which to base management action;

- (I04D) A basis for the improvement of codes, guides, and standards used in the Department and its contractor operations;

- (I04E) Reporting of occupational radiation exposure information to the Radiation Records Repository; and,

- (I04F) Monitoring, evaluating and reporting of onsite discharges, liquid and airborne effluents, and environmental conditions in the vicinity of DOE sites to assess the levels of radioactive and nonradioactive pollutants and their impact on the public and the environment.

J00   EMERGENCY MANAGEMENT

The audit objective is to consider whether the contractor has established and, if required, tested their emergency response capability. Specific audit areas include determining whether:

- (J00A) Hazard assessments have been performed to identify potential operational emergencies;

- (J00B) Hazard assessment results were used to develop emergency planning and preparedness activities;

- (J00C) The emergency management program incorporates the required 13 elements contained in DOE Order 151.1; and,

- (J00D) The contractor has established programs that incorporate DOE Order 151.1.

K00   GOVERNMENT PROPERTY MANAGEMENT

This function includes all activities associated with the management and control of Department-owned or leased property. The major activities and audit objectives are discussed in the following sections.

K01   Real Property. The real property activity also includes activities associated with space management. Real property management activities include planning for future real estate needs; acquisition, control and disposition of Department-owned or leased real property; ensuring effective and efficient use of real property assets; and real property inventory management. Space management activities include planning for space needs; acquiring, controlling, and disposing of space; and ensuring for effective and efficient use of assigned space. The primary audit objectives would be to determine whether all real property is properly accounted for in the appropriate inventory records and whether owned and/or leased space is used to the best advantage of the government.

K02   Personal Property. This activity includes the development, implementation, and administration of policies, programs, and procedures for effective and economical acquisition planning, acquisition, receipt, inspection, storage, issue, use, control, protection, care and maintenance, disposal, and maintenance of operating records, (except accounting records) as appropriate, for government personal property. This activity includes assets such as equipment, supplies consumed incident to the operation of the Department, equipment held for future uses. Suggested audit objectives include determining whether:

- (K02A) The contractor is complying with the requirement for inventory of personal property, and, if so, whether the inventory records and balances are accurate and current; and

- (K02B) The contractor is properly identifying, recording, and processing of all property including excess, scrap and surplus property.

K03   Materials. Materials held by the integrated contractor include, but are not necessarily limited to, stores, job stock, self-service stock, precious metals, and nuclear materials. A contractor's planning and control systems are usually interrelated with the functions of materials management. Decisions and actions relative to development of material requirements, acquisition of materials, administration of materials on hand, and consumption of materials in the course of fulfillment of a contractor's mission can all affect the relative cost of acquiring and carrying a materials inventory. Contractor management is responsible for finding the least costly combination of factors affecting materials costs commensurate with meeting mission requirements. Suggested audit objectives include determining whether:

- (K03A) Current use stores inventory reports are analyzed periodically for items to be deleted or for a reduction of stock levels;

- (K03B) There is regular integrated planning between organizations requiring materials and those responsible for providing the materials;

- (K03C) Automatic stock replenishment procedures and practices are effective in satisfying demands and providing reasonable on-hand stock;

- (K03D) Warehouse facilities provide reasonable protection from the elements and theft;

- (K03E) Controls over precious metals have been implemented and that excess precious metals have been identified to the Department's precious metals pool manager under the DOE Field Office, Oak Ridge jurisdiction;

- (K03F) Materials are efficiently handled and physically protected and controlled during movement; and,

- (K03G) The integrated system of nuclear materials physical protection and material accountability and control measures effectively deters, prevents, detects and responds to thefts of nuclear materials.

K04   Sensitive Property. This activity includes the management and control of certain government property items that are considered susceptible to being appropriated for personal use or which can be readily converted to cash as defined by DOE HQ Order 1400.1. Suggested audit objectives include determining whether:

- (K04A) sensitive property has been identified by tagging and, if inventoried, is accurately shown on inventory records; and,

- (K04B) the extent of control is balanced by the cost to replace the lost item(s).

L00   QUALITY ASSURANCE MANAGEMENT

This function includes those composite activities at both the major Departmental contractors and their subcontractors to ensure that equipment and facilities perform satisfactorily when placed in service. A quality assurance program includes the policies and requirements for systems and techniques necessary to identify problems, implement corrective actions and monitor those actions to assure that implementation resolved the problems. Quality assurance applies to all aspects of research, development, engineering, procurement, construction and operations. Suggested audit objectives include determining whether:

- (L00A) A quality assurance program has been developed and documented in accordance with specified requirements;

- (L00B) Objective evidence documents the implementation of a quality assurance program;

- (L00C) The quality assurance program is effective;

- (L00D) The program identifies nonconformances and quality assurance program deficiencies; and,

- (L00E) Corrections of identified quality assurance program deficiencies occurred.

M00   TRAFFIC FLEET AND PACKAGING MANAGEMENT

Traffic, fleet and packaging management is directed by the rules and regulations and policies established by the Department and other applicable Federal, State and local agencies and organization standards. The overall objective is to determine whether traffic, fleet and packaging activities and equipment are administered in accordance with applicable requirements and good business practices.

M01   Fleet Management. This function includes activities to ensure effective and efficient planning, acquisition, maintenance, use, control, and disposition of motor equipment, motor vehicles, aircraft, and watercraft. Suggested audit objectives include determining whether:

- (M01A) Acquisition is in accordance with predetermined long and short-range plans;

- (M01B) Effective vehicles use is in accordance with GSA and other appropriate utilization measures;

- (M01C) Ultimate vehicle disposition nets the greatest return for the least usage cost;

- (M01D) Commercially rated passenger vehicles are operated within Department of Transportation (DOT) regulations;

- (M01E) Preventive maintenance programs are developed, implemented and carried out to assure effective, reliable fleet operation;

- (M01F) Fueling services are the most economical and meet requirements for continued fleet service; and,

- (M01G) Controls, quality and economic considerations are exercised over the identification, ordering and utilization of fleet parts, supplies and services.

M02   Traffic Management. This function includes activities that assure the economical, efficient, effective, timely and safe shipment of hazardous material, hazardous waste, general commodities, household goods, and import and export items. Suggested audit objectives include determining whether:

- (M02A) Services used are appropriate for the circumstances and transportation performance assessment is evaluated with consideration given to regulatory compliance, safety record and execution;

- (M02B) Negotiated discounted tender rates are used properly and effectively;

- (M02C) The mode of transportation and carrier used is in the best interests of the government;

- (M02D) Organizational internal assessments are adequately being conducted;

- (M02E) Shipments are adequately described on bills of lading or other shipping documents;

- (M02F) Insurance costs are avoided on shipments of government-owned property;

- (M02G) The organization is complying with transportation requirements applicable to hazardous materials and hazardous wastes;

- (M02H) Claims are being resolved equitably and within reasonable time limits; and,

- (M02I) The organization is providing an adequate level of service to the organizations originating the shipments.

M03   Packaging. This function includes activities that assure the efficient, effective and safe utilization and implementation of Departmental and DOT packaging and labeling requirements to assure the adequate control and delivery of hazardous materials, hazardous wastes and general commodities. Suggested audit objectives include determining whether:

- (M03A) The organization is complying with packaging regulations and requirements applicable to hazardous materials and hazardous wastes;

- (M03B) Appropriate labeling is utilized to comply with hazardous material and hazardous waste regulation;

- (M03C) Appropriate placating is utilized to comply with transportation regulation and requirements;

- (M03D) Maintenance programs are developed and implemented to assure safety and compliance with regulations and requirements for hazardous materials packaging; and,

- (M03E) Controls are in place and utilized identifying requirements for use of packaging.

N00   PLANNING AND BUDGET MANAGEMENT

Planning and budget management includes all activities associated with planning and budgeting, and funds control.

N01   Planning and Budgeting. This function includes financial, programmatic and strategic planning essential for the continued mission or for specific authorized contractual work. This function also represents the initial stage of the budget process in which requirements, budgetary assumptions and activity data are developed; estimates of funding requirements are prepared; detailed analysis and reviews are performed; budget data is consolidated and summarized; detailed justification are developed including prioritization of requirements; challenges are provided by internal and external reviewing and approving authorities; and budget changes are controlled and communicated throughout the organization. Suggested audit objectives include determining whether:

- (N01A) Formal Planning Process. Planning is formal, organized, and management supported, and the process considers all relevant sources of information and alternatives;

- (N01B) Budgetary Requirements. The budget process conforms to requirements, and provides a realistic portrayal of probable future events in conformity with department strategy, goals and objectives;

- (N01C) Budget Process. The budget process incorporates:

    ⇒ Pertinent DOE requirements and limitations;

    ⇒ Detailed requirements of approved budgetary and program assumptions and approved program plans;

    ⇒ Appropriate workload measures of capability;

    ⇒ Estimates, when feasible, based on measures of workload, efficiency and effectiveness, and evaluated with techniques such as trend analysis;

    ⇒ Past results and alternative approaches to meeting objectives; and,

    ⇒ Conformance to appropriate Cost Accounting Standards.

- (N01D) There is a clear linkage with the contractual planning process, which in turn supports Departmental strategic planning.

N02   Budget Execution. This function represents the budget process phase where fiscal year funding is provided to implement the Department's missions, functions, and programs. Audit work performed in other areas, such as finance and accounting, may be useful in an evaluation of budget execution. Suggested audit objectives include determining whether:

- (N02A) There are appropriate systems, procedures, and reports capable of providing proper funds control as required by the contract;

- (N02B) There are systems in place to monitor and analyze cost and schedule performance versus approved budgets and performance targets;

- (N02C) There is an adequate work authorization and control process;

- (N02D) General plant project funding limitations ($1.2M) are exceeded; and,

- (N02E) Capital projects are funded through used of expense funding, or split funding.

O00   SUPPORT SERVICES

The functions of legal services, medical services, food services operations and custodial services are included in this section.

O01   Legal Services. This function includes the contractor's organization to ensure compliance with all legal requirements, as well as the availability of legal assistance and opinions by employees and/or attorneys or legal firms on contract. Suggested audit objectives include determining whether:

- (O01A) There is a time accountability system for the legal staff;

- (O01B) The mix of in-house staff and outside law firms minimizes cost; and,

- (O01C) Cost containment practices have been implemented, such as use of:

   ⇒ Mini-trials,

   ⇒ Mediation,

   ⇒ Arbitration,

   ⇒ Computer models to estimate the settlement value of a case at various stages of litigation,

   ⇒ Restrictions placed on the authority of outside law firms to subcontract for services, and,

   ⇒ Consultants to audit invoices submitted by outside law firms.

O02   Medical Services. This function includes the medical facility, first aid station(s), or similar facility staffed by contractor's forces or provided by subcontractor. Suggested audit objectives include determining whether:

- (O02A) Medical services are provided at a reasonable cost for only medical care authorized under the contract;

- (O02B) The contractor operated facility, as applicable, is properly staffed and managed;

- (O02C) Procedures ensure the early detection of illness by means of periodic health evaluations and treatment of work-related injuries according to the contract; and,

- (O02D) The service contributed to the maintenance of good employee health through the application of preventive medical measures, such as immunizations, alcohol and drug abuse programs, wellness programs, and counseling.

O03   Food Service Operations. This function encompasses those approved activities necessary for availing food products to contractor employees. This function includes vending machine operations. The function may be staffed by direct contractor employees or provided by subcontractor. Suggested audit objectives include determining whether:

- (O03A) Established financial objectives (break-even, based on full costs, including depreciation) are being achieved;

- (O03B) Food service is being provided economically;

- (O03C) The food service facility is meeting the needs of the work force; and,

- (O03D) The concession for vending machines was competed in the past 3 years and whether controls exist to provide reasonable assurance that any commissions earned accurately reflect machine sales and are properly applied and administered in accordance with Departmental agreements and the Randolph Sheppard Act.

O04   Custodial Services. This function encompasses the routine and special housekeeping and cleaning duties by contractor-direct employees or as provided by subcontractor. The audit objective should be to determine whether custodial functions are performed economically and as scheduled.

O05   Other Support Services. This function includes those support services not previously identified in this section. The typical audit objective would be to determine the economy, efficiency and effectiveness of the support services operations.

XOO   OTHER

This function is used for other miscellaneous items that do not fall within the other areas.

- (X01) Internal Audit Work Requested by the Department.

- (X02) Internal Audit Work Requested by Contractor Management.

- (X03) Internal Audit Work Requested by the OIG.

- (X04) Miscellaneous Internal Audit Work.

CHAPTER 15

AUDIT COVERAGE FOR THE STATEMENT OF COSTS INCURRED AND CLAIMED

A. *SCOPE OF CHAPTER*

This chapter sets forth general guidelines for satisfying the OIG's responsibility for reviewing Statements of Costs Incurred and Claimed (SCIC) submitted by the Department's management and operating (M&O) integrated contractors.

B. *BACKGROUND*

M&O contracts are major Department cost-reimbursement contracts for managing and operating or otherwise using government-owned facilities and resources. Most M&O contracts are integrated contracts, under which the Department pre-finances costs through letters of credit or cash advances, and the contractor is required to maintain a separate and distinct system of accounts, records, documents, and other evidence showing and supporting all allowable costs incurred, revenues, or other credits. The integrated contractor maintains accounts that are integrated with Department reciprocal accounts and prepares financial reports in accordance with formats prescribed by the Department. Integrated contracts require contractors to account for all funds advanced by the Department, to safeguard assets in their care, and to claim only allowable costs.

At the close of each fiscal year, the Department's Accounting Handbook (Handbook), in Chapter 4, *Accounting Systems and Organization*, requires integrated contractors to prepare and certify an SCIC, which is the contractor's accounting for all costs incurred for the period. The SCIC serves as the contractor's claim and certification that the costs have been incurred and (to the best of the Certifying Official's knowledge and belief) are allowable under the contract. The SCIC also requires approval by Department representatives. Department approval of the SCIC constitutes the Department's acknowledgment that the net costs incurred are believed to be allowable under the contract and that those costs have been recorded in the accounts maintained by the contractor in accordance with Department accounting policies.

Allowable cost provisions and cost prohibitions, ceilings, and approval requirements are specified in integrated contracts or in cost principles referenced in the contracts. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

To assure that only allowable costs are claimed by integrated contractors and to make efficient use of available audit resources, the OAS, the Department's Office of Procurement and Assistance Management, and integrated contractors implemented the Cooperative Audit Strategy, which places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of incurred costs. Consistent with the Cooperative Audit Strategy and required by their contracts, integrated contractors are to maintain an Internal Audit activity with responsibility for conducting audits including audits of the allowability of incurred costs. In addition, integrated contractors are required to conduct or arrange for audits of their subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

According to the Handbook, OIG audits of SCICs will assess the work of Internal Audit, specifically with regard to the allowability of costs claimed by the contractor, and assess the contractor's internal control structure to assure costs claimed and reimbursed by the Department are allowable under the contract.

C. *POLICY AND APPROACH FOR SCIC REVIEWS*

This section provides OAS policies for the overall SCIC audit approach including coverage of Internal Audit, subcontract audits, resolution of questioned costs and internal control weaknesses, signing the SCIC, and reporting guidance. SCIC audits will be performance audits and, therefore, follow GAGAS for performance audits. Generally, SCIC audits will be conducted annually for the ten contractors who incur the most costs and every four years for the remaining contractors.

    1.   <u>Approach to SCIC Auditing</u>. As the cognizant audit organization for the Department's integrated contractors, OAS's overall SCIC audit approach is to review the adequacy of audit coverage for costs claimed on the SCIC. Consistent with the Cooperative Audit Strategy and to make efficient use of audit resources, SCIC audits will review: 1) Internal Audit's planning including the Internal Audit Implementation Design, risk assessment, and overall internal audit strategy, considering particularly the method of auditing costs incurred; 2) cost allowability audit work conducted by Internal Audit; 3) contractor's audit coverage of its subcontractors; and, 4) resolution of questioned costs and control weaknesses impacting allowable costs that were identified in prior audits and reviews.

    Accordingly, for an integrated contractor, the objectives of a SCIC audit will be to determine, for the period(s) covered by the SCIC(s), whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- Contractor conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and,
- Questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits and reviews have been adequately resolved.

    OAS's audit program for SCIC audits is contained in Exhibit A of this chapter.

    2.   <u>Internal Audit</u>. In evaluating Internal Audit, the SCIC audit will review allowable cost audit(s) conducted by Internal Audit. The scope of the evaluation will include Internal Audit's annual audit(s) of allowable cost for the periods covered by the SCIC(s) and any other audits that provided coverage of allowable costs and were considered by Internal Audit in its allowable cost risk assessment. The evaluation will review Internal Audit's qualifications, independence, workpaper documentation, risk assessment, sampling methodology, recent peer review results, and compliance with GAGAS or Institute of Internal Audit Standards. In addition, as described in section C.3, audits of subcontractors conducted by Internal Audit will also be included in this evaluation.

It is OAS policy that if Internal Audit deviates significantly from the requirements described in the Cooperative Audit Strategy or does not comply with the internal audit requirements of its contract, OAS will consider it to be a material internal control weakness. OAS will not assume responsibility for performing the allowable cost audit if Internal Audit did not provide sufficient audit coverage of allowable costs or when limited or no reliance can be placed on Internal Audit's cost allowability work. In these circumstances, it will be the responsibility of the contracting officer to address the contractor's noncompliance. The material weakness will be described in the SCIC audit report, and the responsible team leader will not sign the SCIC statement. In addition, if Internal Audit's work does not meet professional standards and cannot be relied upon, we will consider questioning the cost of Internal Audit.

If we take no exception to Internal Audit's allowable cost audit work, we will provide negative assurance stating that nothing came to our attention to indicate that Internal Audit did not meet applicable professional standards and could not be relied upon.

3.   Subcontract Costs. At most integrated contractors, costs claimed on the SCIC include subcontract costs. In some cases, subcontract costs can be significant. Generally, integrated contracts require the contractor to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. If Internal Audit conducted subcontract audits, their subcontract audit work will be included in the evaluation of Internal Audit described in section C.2, above. If the contractor had another internal activity conduct subcontract audits, such as an audit group in its procurement function, the SCIC audit will evaluate the internal activity's qualifications, independence, workpaper documentation, risk assessment, sampling methodology, recent peer review results, and compliance with GAGAS or Institute of Internal Audit Standards. If the contractor relies on an external audit organization, such as DCAA, for subcontract audits, the SCIC audit will evaluate whether arrangements have been made to ensure that subcontract costs will be audited and the audit organization complies with applicable professional auditing standards.

If the contractor has not audited or arranged for audits of subcontract costs requiring audit, OAS will report the unaudited subcontract costs as "unresolved costs pending audit" and consider it to be an internal control weakness. The materiality of the control weakness will depend on the significance of the unresolved costs.

4.   Resolution of Questioned Costs. In order to ensure that only allowable costs were claimed on the SCIC, any questioned costs or internal control weaknesses impacting allowable costs that were identified in prior audits or reviews should be resolved. Resolution would normally include correction of control weaknesses, contracting officer determinations for questioned costs, and recovery of costs determined to be unallowable. The SCIC audit will review the resolution of the results of prior audits and reviews that covered cost allowability, internal controls relevant to cost allowability, and subcontract costs. Included would be any audits and reviews (e.g., OMB Circular A-123 reviews) conducted by the OIG, Internal Audit, the field office, DCAA, or other audit or review

organizations since the last OAS SCIC audit. The SCIC audit will report questioned costs and internal control weaknesses relevant to cost allowability that have not been appropriately resolved. The materiality of a control weakness will depend on the significance of the impact that it could have on cost allowability.

5.   Signing the SCIC. The responsible OIG team leader will sign the SCIC only if the SCIC audit identified no material internal control weaknesses. As described in C.2, if Internal Audit does not conduct a sufficient allowable cost audit or its allowable cost work cannot be relied upon, OAS will consider it to be a material internal control weakness. Similarly, failure by the contractor to audit or arrange for audits of subcontractor costs could result in a material weakness if unaudited subcontract costs represent a significant portion of costs claimed in the SCIC. Accordingly, the team leader will not sign the SCIC. In addition, the team leader will not sign the SCIC until it has been signed by the contractor and Department officials as required by the Handbook. In signing the SCIC, the team leader states the amount of questioned costs, if any, disclosed in the SCIC audit. The team leader's signature includes the qualifier "subject to future audit."

When a material internal control weakness existed that caused the team leader to not sign the SCIC, the team leader can subsequently sign the SCIC when adequate corrective actions are implemented. For example, if the SCIC was not signed because internal audit did not conduct an allowable cost, the team leader may sign the SCIC when reliable audits are subsequently performed.

6.   SCIC Audit Report. Generally, the results of the SCIC audit will be reported in a performance audit report format. If the SCIC report contained no recommendations, a letter report format will be used. If the SCIC report contains findings and recommendations, a management control report format will be used. Examples of letter and management control SCIC audit reports are contained in the OAS's Style Manual.

The SCIC(s) for the period(s) covered in the audit will be included in the report, regardless of whether the team leader signed the SCIC(s). In addition, the SCIC should be footnoted at the OIG signature block, even if unsigned, in order to refer the reader to the audit report that accompanied the SCIC. If an unsigned SCIC is subsequently signed, a signed copy should be forwarded to the report's addressee and to the field CFO.

SUGGESTED STEPS FOR
STATEMENT OF COSTS INCURRED AND CLAIMED (SCIC) AUDITS

I.   BACKGROUND AND OBJECTIVE

As the cognizant audit organization for the Department's integrated contractors, OAS's overall approach for SCIC audits is to review the adequacy of audit coverage for costs claimed on the SCIC.

To assure that only allowable costs are claimed by the Department's integrated contractors and to make efficient use of available audit resources, the OIG, the Department's Office of Procurement and Assistance Management, and integrated contractors have implement a Cooperative Audit Strategy, which places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the Cooperative Audit Strategy, integrated contracts require contractors to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, integrated contractors are required to conduct or arrange for audits of their subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

Consistent with the Cooperative Audit Strategy and to make efficient use of audit resources, SCIC performance audits are conducted to review: 1) cost allowability audit work conducted by Internal Audit; 2) contractor's audit coverage of its subcontractors; and, 3) resolution of questioned costs and control weaknesses impacting allowable costs that were identified in prior audits and reviews. The objectives of the SCIC audit are to determine, for the period(s) covered by the SCIC(s), whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- Contractor conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and,
- Questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits and reviews have been adequately resolved.

See Chapter 15 of the Audit Manual for a detailed discussion of the SCIC audit approach and the Department's Accounting Handbook, Chapter 4, *Accounting Systems and Organization*, for a detailed discussion of the SCIC.

II.   SCOPE AND METHODOLOGY
The audit scope will be limited to Internal Audit's audit coverage of allowable costs, subcontract audits, and the resolution of questioned costs and internal control weaknesses that impact costs claimed by the contractor on its SCIC(s) for the period(s) covered by the audit.

The audit methodology will include:

- Assessing allowable cost audit work conducted by Internal Audit which will include review of audit reports, workpapers, auditor qualifications, independence, audit planning including risk assessments and overall internal audit strategy, and compliance with applicable professional auditing standards and conducting interviews of auditors;
- Reviewing policies, procedures, and practices for identifying subcontracts requiring audit and arranging for audits;
- Assessing audits of subcontractors conducted by the contractor and whether appropriate arrangements have been made for subcontract audits that will be conducted by other audit organizations; and,
- Evaluating resolution of questioned costs and control weaknesses impacting cost allowability that were identified in prior audits and reviews conducted by the OIG, Internal Audit, and other organizations.

III.   DETAILED STEPS

    A.   Preliminary Steps

        1.   OIG's policies and procedures for conducting a performance audit are contained in Audit Manual Chapter 10. The SCIC audit will follow these policies and procedures for assigning staff, issuing notification letters, conducting entrance conferences, and using EIGPT. However, the SCIC audit will not be divided into a survey and verification phase; therefore, an end-of-survey decision is not required.

        2.   Coordinate with the Offices of Investigations and Inspections to determine whether there are any outstanding issues concerning the contractor. Specifically, inquiry as to whether there are any Investigative Administrative Reports to Management or other reports that include any cost issues. If so, determine the materiality of the issues and whether they could have an adverse effect on internal controls over cost allowability.

        3.   Obtain the SCIC(s) for the period(s) covered by the audit. Ensure that the SCIC(s) has appropriate signatures of the contractor and Department officials.

        4.   Review the prior SCIC audit and determine the disposition of reported questioned costs and internal control weaknesses impacting allowable cost.

        5.   Obtain prior audits and reviews issued since the last SCIC audit that provided coverage of the allowability of claimed costs or internal controls relevant to cost allowability. Included would be any audits and reviews (e.g., OMB Circular A-123 reviews) conducted by the OIG, Internal Audit, Department field offices or Headquarters, DCAA, or other organizations. Also included would be any audits of subcontract costs.

B.   Internal Audit
   1.   Determine whether Internal Audit has conducted allowable costs audit(s) for the cost claimed for the period(s) covered by the SCIC(s). If not, this condition will be considered a material internal control weakness and skip to step B.12, below. If yes, perform steps B.2 to B.12.

   2.   Through inquiry and review of Internal Audit's charter, policies, and procedures, ascertain whether it is Internal Audit's policy to adhere to IIA standards and/or GAGAS.

   3.   Assess the independence of Internal Audit based on its position in the contractor's organization and its policies and procedures relevant to auditor independence.

   4.   Determine whether internal auditors who participated in cost allowability audits have the education and experience and obtained continuing professional education required by applicable auditing standards.

   5.   In determining the extent of testing for steps B.2 to B.4, the SCIC auditor should consider the results of an external peer review that covered the period, or a substantial portion of the period, covered in this audit.

   6.   For its coverage of allowable costs, determine whether Internal Audit considered costs that were:
          • Expressly unallowable by the contract or applicable costs principles;
          • Subject to contractual limitations or ceiling; and,
          • Requiring contracting officer prior approval per the contract.

   7.   Determine whether Internal Audit's planning including the Internal Audit Implementation Design and overall strategy adequately assessed risk of unallowable costs and considered the results of prior internal and external audits and reviews that impacted cost allowability including the audits and reviews identified in step A.5.

   8.   Determine whether Internal Audit, when developing its allowable cost audit scope and methodology, assessed the internal controls that ensure that only allowable costs are claimed.

   9.   Obtain and review Internal Audit's documentation (workpapers) and reports for a) allowable cost audits and b) other audits that provided coverage of allowable costs and were considered by Internal Audit in determining the scope and methodology of its allowable cost audit work. Review audits to determine whether work was conducted in accordance with applicable auditing standards. Specifically, determine whether:
          • Work was sufficiently documented and adequately supervised;
          • Sample size and methodology was appropriate for projecting sample results to the total population tested;

- Questioned costs and internal control weaknesses were accurately and completely reported; and,
- Auditor's conclusions were supported by work performed.

This step would normally include re-performing a sample of transactions tested by Internal Audit and/or selecting additional samples from the sampled universe.

10. Interview internal auditors who participated in allowable costs audit(s) to inquire whether internal auditors were subjected to inappropriate management influences to restrict the audit scope or suppress audit findings.

11. Conclude as to whether Internal Audit's allowable cost audit work generally met applicable auditing standards (Institute of Internal Auditing (IIA) Standards or generally acceptable government auditing standards (GAGAS)) and could be relied upon. If Internal Audit met applicable professional auditing standards and could be relied upon, our report will state that nothing came to our attention to indicate that Internal Audit did not meet applicable professional standards and could not be relied upon.

12. OAS considers it to be a material internal control weakness if Internal Audit did not conduct an allowable cost audit or if Internal Audit's allowable cost audit work could not be relied upon. In these circumstances, OAS will not assume responsibility for performing the allowable cost audit. It will be responsibility of the contracting officer to address the contractor's noncompliance with the contractual requirement to conduct allowable costs audits. The material weakness will be described in the SCIC audit report, and the responsible team leader will not sign the SCIC statement. In addition, in cases when Internal Audit's work cannot be relied upon, we will consider questioning the cost of Internal Audit.

C. Subcontract Costs

1. Determine whether the contractor has a policy requiring audits of cost-type subcontracts when costs incurred are a factor in determining the amount payable to a subcontractor. If the contactor has a policy, assess the adequacy of the policy and its implementation. Obtain a listing from the contractor of subcontract audits completed, in-progress, and requested.

2. Obtain a list of subcontracts that were active during the period(s) covered by the SCIC(s) and for which costs incurred was a factor in determining the amount payable to a subcontractor. If contractor does not have accurate data on subcontracts requiring audit, this condition might be considered an internal control weakness.

3. Determine whether or not the cost-type subcontracts requiring audit under the contractor's policy have been audited. If not, determine why.

4.   If Internal Audit conducted subcontract audits, their subcontract audit work will be included in the evaluation of Internal Audit described in section B, above.

5.   If the contractor had another internal activity conduct subcontract audits, such as an audit group in its procurement function, the SCIC audit will evaluate whether the audit group's subcontract audit work complied with applicable auditing standards and can be relied upon, using applicable steps B.2 to B.11.

6.   If the contractor relies on an external audit organization, such as DCAA, for subcontract audits, the SCIC audit will evaluate whether arrangements have been made to ensure that subcontract costs will be audited and the audit organization will follow applicable professional auditing standards.

7.   If the contractor has not audited or arranged for audits of subcontract costs when costs incurred are a factor in determining the amount payable to a subcontractor, OAS will report the unaudited subcontract costs as "unresolved costs pending audit" and consider it to be an internal control weakness. The materiality of the control weakness will depend on the significance of the unresolved costs.

D.   Resolution of Questioned Costs

1.   Determine whether any of the prior audits or reviews, obtained in steps A.4 and A.5, identified questioned costs or internal control weaknesses impacting allowable costs for the contractor or for its subcontractors.

2.   If questioned costs were reported in prior audits or reviews (identified in step D.1), determine whether contracting officer determinations were made concerning the allowability of the questioned costs and recovery was made for costs determined to be unallowable. Questioned costs that have not been resolved will be questioned in the SCIC audit report.

3.   If the prior audits and reviews reported weaknesses in internal controls that impact cost allowability, determine whether actions were taken to correct the weaknesses. Internal control weaknesses relevant to cost allowability that have not been appropriately resolved will be reported in the SCIC report. The materiality of a control weakness will depend on the significance of the impact that it could have on cost allowability.

E.   Signing the SCIC

1.   The responsible OIG team leader will sign the SCIC only if:
   • Internal Audit's allowable cost audit work generally met applicable auditing standards and could be relied upon;
   • No material internal control weaknesses were identified;
   • SCIC has appropriate signatures of the contractor and Department officials; Questioned costs, if any, are noted on the SCIC; and,

- Team leader's signature on the SCIC includes the qualifier "subject to future audit."

F.   Reporting

1.   The SCIC audit will generally follow the OIG's policies and procedures for conducting a performance audit contained in Audit Manual Chapter 10 for developing findings and recommendations and for discussing findings with the contractor and Department management. Report preparation and issuance will also generally follow the OIG's policies and procedures for performance audit reports contained in OAS's Report Style Manual. Examples of SCIC reports are contained in the Style Manual.

2.   The SCIC(s) for the period(s) covered in the audit will be included in the report, regardless of whether the team leader signed the SCIC(s). In addition, the SCIC should be footnoted at the OIG signature block, even if unsigned, in order to refer the reader to the audit report that accompanied the SCIC. If there are no questioned costs, the team leader should put "$0" for questioned costs on the OIG signature line.