



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Improving OIG processes

Quality Assurance Review of EPA OIG Audit Assignments Completed in Fiscal Year 2018

Project No. 19-N-0167

June 4, 2019

Report Contributors:

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Abbreviations

CMR	Compliance Monitoring Review
CPE	Continuing Professional Education
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
OA&E	Office of Audit and Evaluation
OIG	Office of Inspector General
PMH	<i>Project Management Handbook</i>

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At a Glance

Why We Did This Project

The U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) operates and maintains a system of quality controls designed to provide reasonable assurance that personnel performing audit or evaluation functions comply with all generally accepted government auditing standards (GAGAS) and established OIG policies and procedures.

Quality assurance staff from the OIG's Office of Audit and Evaluation report annually on systemic issues identified during referencing and compliance monitoring reviews. They also make observations on compliance with GAGAS and OIG policy.

In addition, GAGAS requires that each organization performing audits in accordance with these standards have an external peer review. Peer reviews of the OIGs must be performed at least once every 3 years.

This report addresses the following EPA OIG goal:

- *Improve OIG processes, resource allocation and accountability to meet stakeholder needs.*

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List of [OIG reports](#).

Quality Assurance Review of EPA OIG Audit Assignments Completed in Fiscal Year 2018

What We Found

Internal reviews of EPA OIG audit assignments completed in fiscal year (FY) 2018 found that the OIG complied with GAGAS and substantially complied with OIG policies and procedures. An external peer review conducted in FY 2018 also found that the EPA OIG's system of quality control was suitably designed and complied with, providing the OIG with reasonable assurance that audits are performed and reported in conformity with GAGAS.

OIG audit reports issued in FY 2018 demonstrated high levels of compliance with OIG quality assurance procedures, receiving average compliance scores of 94 percent.

As part of our internal quality review, we evaluated the OIG's audit activities, from the preliminary research to the final report. Projects with reports issued in FY 2018 complied with GAGAS and generally complied with OIG policies. The average compliance monitoring score was 94.31 out of 100. Similar to FY 2017, the only systemic issue identified was the estimation and approval of project time frames and cost estimates. The issue continued to occur because the recommendation from the FY 2017 quality control review was not implemented in FY 2018. When reports are not timely and current, their relevance and usefulness can be diminished.

In addition, our internal quality review assessed the OIG's compliance with GAGAS independence and competence standards, and we did not identify any significant issues. However, the office should ensure that it is maintaining all personal impairment forms for record-keeping purposes.

Recommendations

We recommend that the Assistant Inspector General for Audit and Evaluation finalize the planned corrective actions to address the FY 2017 quality control review recommendation. We also recommend that the Assistant Inspector General for Audit and Evaluation establish internal controls to verify that personal impairment forms are timely completed and readily accessible for all staff.

Assistant Inspector General Response

The Assistant Inspector General for Audit and Evaluation agreed with the findings and recommendations and provided milestone dates for implementing the recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

June 4, 2019

MEMORANDUM

SUBJECT: Quality Assurance Review of EPA OIG Audit Assignments
Completed in Fiscal Year 2018
Report No. 19-N-0167

FROM: Richard Eyermann, Deputy Assistant Inspector General
Office of Audit and Evaluation

A handwritten signature in black ink that reads "Richard Eyermann".

TO: Kevin Christensen, Assistant Inspector General
Office of Audit and Evaluation

This is our report on the U.S. Environmental Protection Agency Office of Inspector General's (OIG's) adherence to quality control elements and compliance with generally accepted government auditing standards in OIG audit assignments completed in fiscal year 2018.

This report offers observations and recommendations to enhance and strengthen the OIG's project execution process. It also provides opportunities for improving adherence to internal controls within the OIG.

cc: Edward Shields, Associate Deputy Inspector General

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Purpose

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) operates and maintains a system of quality control designed to provide reasonable assurance that all personnel performing audit or evaluation functions comply with generally accepted government auditing standards (GAGAS) and established OIG policies and procedures. Quality assurance staff from the OIG's Office of Audit and Evaluation (OA&E) analyze and summarize the results of their monitoring activities at least annually to identify any systemic or repetitive issues needing improvement, along with recommendations for corrective action.

This quality assurance report summarizes the results of our compliance monitoring reviews (CMRs) of 43 audit projects for which reports were issued in fiscal year (FY) 2018. Appendix A lists the projects we reviewed.¹ This report also includes an update on the implementation of recommendations from our FY 2017 quality assurance report.

Background

The Inspector General Act of 1978, as amended, requires that federal Inspectors General comply with standards established by the Comptroller General of the United States for audits. The EPA OIG conducts its audits in accordance with these standards, known as *GAGAS*. The OIG also maintains an internal system of quality controls to provide the organization with reasonable assurance that its products, services and personnel comply with professional standards and applicable legal and regulatory requirements.

GAGAS Section 3.95 states that an audit organization:

should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

A measuring process should provide a mechanism to evaluate individual products against specific quality criteria. The process should also present the information in a manner that, over time, will allow the OIG to assess adherence to quality control elements so that necessary adjustments can be made to policies, procedures and activities.

¹ A CMR is prepared for each assignment. Some assignments may have multiple reports, but only one CMR is completed for each assignment. Appendix B lists the reports issued without CMRs and the reason CMRs were not performed.

In July 2014, the EPA Inspector General signed OIG Policy and Procedure 006, *OIG Quality Control and Assurance Program*, which identifies the OIG’s quality control and assurance process, including internal and external components such as the CMR. Our system of quality control includes the use of CMRs to assess completed work and determine whether the OIG followed our professional standards and operated according to OIG Policy 101, *Project Management Handbook* (PMH).

Each CMR encompasses an evaluation of the audit activities that occurred, from when the preliminary research started to when the team submitted the final report and closed the working papers. The CMR results, trends and subsequent recommendations are summarized in our annual quality control report. The categories evaluated in the CMR and associated point values are presented in Table 1.

Table 1: CMR categories

Category	Point value
Planning and Execution	12
Communication	13
Supervision	30
Report Quality	20
Timeliness	15
Post Reporting/Data Quality	10
Total	100

Source: OIG.

Our review of the EPA OIG’s compliance with general auditing standards—such as independence, professional judgment, competence and adherence to continuing professional education requirements—is not part of the CMR and is conducted independently of the CMR.

Prior Reports

On June 18, 2018, the Department of Defense OIG issued a [report](#) on its external peer review of the EPA OIG’s system of quality assurance in effect as of September 30, 2017. The review included a sample of reports issued in FY 2017. The Department of Defense OIG’s overall conclusion was that the EPA OIG’s system of quality control was suitably designed and complied with, providing the EPA OIG with reasonable assurance that audits are performed and reported in conformity with applicable professional standards. In its management letter, the Department of Defense OIG identified some issues that were not of sufficient significance to affect its overall conclusion. In response, the EPA OIG proposed corrective actions to address the issues.

On July 9, 2018, the EPA OIG issued Report No. [18-N-0219](#), *Quality Assurance Review of EPA OIG Reports Issued in Fiscal Year 2017*. Based on the results of

the CMRs conducted that year, we recommended that the Assistant Inspector General for Audit and Evaluation update the OIG's PMH. The Assistant Inspector General for Audit and Evaluation agreed with the recommendation and estimated that corrective actions would be completed by the end of FY 2018.

Scope and Methodology

We performed this review on projects with final reports issued from October 1, 2017, to September 30, 2018. This review covered GAGAS-compliant reports by the OIG's OA&E, which were reviewed and scored by the OIG's quality assurance staff. We did not include any reports with work performed by external auditors. The work performed in this review does not constitute an audit conducted in accordance with GAGAS.

The scores for each report were reviewed, and any project that received less than 80 percent of the possible points in any of the six CMR categories (outlined previously in Table 1) was reviewed to assess the issues identified. Identified issues were then analyzed to determine whether any were systemic. An issue was considered systemic if it occurred in more than 15 percent of the reports.

As part of the quality control review, we also assessed compliance with two GAGAS general standards: independence and competence. Records documenting compliance with these standards are maintained on an organizational basis, rather than by assignment.

Results

OIG audit assignments completed in FY 2018 complied with GAGAS and generally complied with OIG policies. The average compliance monitoring score was 94.31 out of 100. Similar to FY 2017, the only systemic issue identified was the estimation and approval of project time frames and cost estimates. The issue continued to occur because, as of March 2019, the recommendation from the EPA OIG's FY 2017 quality control review had not been implemented. When reports are not timely and current, their relevance and usefulness can be diminished.

In addition, our review of the OIG's compliance with GAGAS independence and competence standards did not identify any significant issues. However, the office does need to ensure that personal impairment forms are maintained for record-keeping purposes.

Estimation and Approval of Project Time Frames and Cost Estimates Need Improvement

The FY 2018 CMRs continued to show a systemic issue related to the timeliness and cost of projects. The CMRs found that some projects exceeded estimated staff days and calendar days and that revisions to milestone dates were not always approved. This issue continued to occur in FY 2018 because the recommendation from the EPA OIG's FY 2017 quality assurance report was not implemented in FY 2018. As of March 2019, OA&E management estimated that the PMH will not be updated until the fourth quarter of FY 2019.

GAGAS identifies timeliness as a report quality element, noting in paragraph A.7.02 that "timely issuance of the report is an important reporting goal for auditors." OIG procedures describe requirements relating to the estimated project time frames, approval of revisions to time frames and documentation of approval of time frames. When reports are not timely and current, their relevance and usefulness can be diminished.

Eight of the 43 reports we reviewed scored less than 80 percent in the category of timeliness. The timeliness score is based on a comparison of the approved milestone date and staff day estimate with the actual milestone date and staff day estimate.

In response to EPA OIG Report No. [18-N-0219](#), the Assistant Inspector General for Audit and Evaluation agreed to update the OIG's PMH by September 30, 2018, to clarify the following issues:

- (a) What key information regarding assignment calendar days and staff days must be approved.
- (b) When revisions are needed to the key information.
- (c) Who can approve revisions to key information.
- (d) How key information and revisions are to be documented.

Although OA&E quality assurance staff drafted an update for the PMH before September 30, 2018, final issuance of the PMH amendment was delayed for two reasons. During FY 2018, the OA&E implemented a new organizational structure. Also in FY 2018, the acting Inspector General tasked the acting Deputy Inspector General to improve OA&E processes. As a result, OA&E management decided to delay issuing a PMH amendment until these changes were designed and implemented. As of March 2019, management estimates that the PMH revisions will be issued during the fourth quarter of FY 2019. In addition to addressing the finalized process changes, the PMH revisions will also incorporate changes required by the 2018 update to GAGAS.²

² U.S. Government Accountability Office, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](#), July 17, 2018.

OIG Complied with Education Requirements

Auditors performing work in accordance with GAGAS should maintain their professional competence through continuing professional education (CPE). FY 2018 was the first year of a 2-year CPE period. Auditors are required to complete at least 20 hours of CPE each year. All staff met the requirement in FY 2018.

Annual Personal Impairment Forms Were Missing

GAGAS states that independence documentation must provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements (GAGAS 3.59). OIG Policy and Procedure 102, *OIG Independence*, states that staff and contractors must be independent, in fact and appearance, and sign a personal impairment form upon joining the OIG and annually as performance agreements are established. Directors were asked to save copies of completed impairment forms in a specific directory on the OIG share drive. However, a review of the share drive in February 2019 found that 23 percent of the forms were missing. The Deputy Assistant Inspector General for Audit and Evaluation requested that staff submit the missing impairment forms. A final review of the impairment forms in March 2019 identified seven forms as still missing and four forms as out-of-date or lacking supervisory review.

Recommendations

We recommend that the Assistant Inspector General for Audit and Evaluation:

1. Finalize the EPA OIG's implementation of the recommendation from EPA OIG Report No. [18-N-0219](#), *Quality Assurance Review of EPA OIG Reports Issued in Fiscal Year 2017*, issued July 9, 2018.
2. Establish internal controls to verify that personal impairment forms are timely completed and readily accessible for all staff.

Assistant Inspector General Response and OIG Evaluation

The Assistant Inspector General for Audit and Evaluation agreed to implement the prior report recommendation by completing the updates to the PMH by September 30, 2019. In response to the second finding and recommendation, action was taken to complete the outstanding FY 2019 personal impairment forms. For FY 2020, the Assistant Inspector General for Audit and Evaluation agreed to establish an internal control to require Directors to attest that all the personal impairment forms are completed and properly stored prior to the Directors' end-of-year performance reviews. These corrective actions are acceptable and, when implemented, will address the recommendations.

OIG CMR Results for FY 2018

Report no.	Planning	Communication	Supervision	Report quality	Timeliness	Data accuracy	Compliance review score
18-P-0001	11.8	11.5	28.8	19	9	8	88.1
18-P-0024	12	12	28.8	14	9	10	85.8
18-P-0030	12	13	30	20	15	10	100
18-P-0031	12	13	30	18	15	10	98
18-P-0036	10	13	30	16	15	10	94
18-P-0037	12	10	29	20	15	8	94
18-P-0038	12	13	27.25	19	13	10	94.25
18-F-0039	12	13	28.5	20	15	10	98.5
18-P-0059	12	13	28	20	15	10	98
18-P-0068	12	13	30	20	15	10	100
18-P-0071	12	13	28.8	20	14	10	97.8
18-P-0074	12	13	23.8	18	15	9.8	91.6
18-P-0079	10.5	10	27	20	11	10	88.5
18-P-0080	9	13	27.2	20	11	10	90.2
18-P-0089	12	13	29.25	20	9	10	93.25
18-P-0105	12	13	30	20	12	10	97
18-P-0129	12	13	25	20	15	10	95
18-P-0151	10.5	13	30	20	15	10	98.5
18-P-0153	12	13	24	20	15	10	94
18-P-0175	10	13	30	20	15	8	96
18-P-0176	12	11	30	14	10	10	87
18-P-0206	12	12	29.4	20	12	10	95.4
18-P-0207	12	13	29	17	15	10	96
18-P-0217	12	13	25	20	15	10	95
18-P-0218	10	13	30	20	15	10	98
18-P-0221	12	12.5	28.8	20	7.5	10	90.8
18-P-0222	12	11	30	20	15	9.5	97.5
18-P-0226	12	12.5	30	20	15	10	99.5
18-P-0227	10	12	28.2	20	12	6	88.2
18-P-0231	12	13	29.25	19	15	10	98.25

Report no.	Planning	Communication	Supervision	Report quality	Timeliness	Data accuracy	Compliance review score
18-P-0232	12	13	30	20	15	10	100
18-P-0233	12	12.5	21.4	20	13	8	86.9
18-P-0234	12	12	30	19	13	8	94
18-P-0238	8	11	30	20	15	8	92
18-P-0239	11.5	13	30	20	15	10	99.5
18-P-0240	12	13	30	20	15	10	100
18-P-0241	12	13	30	20	14	10	99
18-P-0270	12	11.5	25	20	12	10	90.5
18-P-0271	12	12	30	10	3	8	75
18-P-0281	11.8	12	24.6	20	13	8	89.4
18-P-0283	12	13	27	20	14	10	96
18-P-0288	12	13	27	20	14	10	96
18-P-0298	12	12	30	20	15	10	99
Average	11.56	12.45	28.37	19.14	13.27	9.52	94.31

Source: OIG.

Reports Without CMRs

Report no.	Report title	Reason for No CMR
18-P-0181	EPA Did Not Identify Volkswagen Emissions Cheating; Enhanced Controls Now Provide Reasonable Assurance of Fraud Detection	First report of two expected from assignment.
18-N-0154	Management Alert: Salary Increases for Certain Administrative Determined Positions	Interim report and non-GAGAS.
18-F-0040	Audit of U.S. Chemical Safety and Hazard Investigation Board's Fiscal Years 2017 and 2016 Financial Statements	Contracted audit
18-B-0228	OIG Office of Investigations' Records Demonstrate Compliance with Law Enforcement Pay Requirements.	Non-GAGAS report
18-P-0250	Management Alert: EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention	Interim report
18-N-0174	EPA's Fiscal Year 2018 Management Challenges	Non-GAGAS report
18-P-0220	EPA Complied with the Statement of Financial Accounting Standards No. 47 and Treasury Financial Manual, Part 2, Chapter 4700	Limited scope report

Source: OIG.

Implementation Plan

No.	Recommendation	Action official	Status	Planned implementation date
1	Finalize the EPA OIG's implementation of the recommendation from EPA OIG Report No. 18-N-0219, <i>Quality Assurance Review of EPA OIG Reports Issued in Fiscal Year 2017</i> , issued July 9, 2018.	Assistant Inspector General for Audit and Evaluation	R	9/30/19
2	Establish internal controls to verify that personal impairment forms are timely completed and readily accessible for all staff.	Assistant Inspector General for Audit and Evaluation	R	10/30/19

Source: OIG.