



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

THE INSPECTOR GENERAL

December 28, 2022

The Honorable Phyllis K. Fong
Inspector General
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, D.C. 20250

Dear Ms. Fong:

Attached is the System Peer Review Report of the U.S. Department of Agriculture Office of Inspector General. This peer review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*. Your comments are incorporated into the relevant sections of the report, and your response to the report is included as an attachment with excerpts.

We appreciate the cooperation and courtesies extended to our staff during the review.

Sincerely,

A handwritten signature in blue ink that reads "Sean W. O'Donnell".

Sean W. O'Donnell



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December 28, 2022

The Honorable Phyllis K. Fong
Inspector General
U.S. Department of Agriculture
1400 Independence Avenue, SW
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Dear Ms. Fong:

The U.S. Environmental Protection Agency Office of Inspector General has reviewed the system of quality control for the audit organization of the U.S. Department of Agriculture OIG in effect for the year ended March 31, 2021. A system of quality control encompasses the USDA OIG's organizational structure, as well as the policies adopted and the procedures established, to provide it with reasonable assurance of conforming in all material respects with generally accepted government auditing standards—known as GAGAS—and applicable legal and regulatory requirements. The elements of quality control are described in GAO-21-368G, *Government Auditing Standards*, dated April 2021, which is published by the U.S. Government Accountability Office.

In our opinion, except for the deficiency described below, the system of quality control for the audit organization of the USDA OIG in effect for the year ended March 31, 2021, has been suitably designed and complied with to provide the USDA OIG with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards, legal requirements, and regulatory requirements.

Audit organizations can receive an external peer review rating of *pass*, *pass with deficiencies*, or *fail*. The USDA OIG has received an external peer review rating of *pass with deficiencies*.

We noted the following deficiency during our review: the USDA OIG audit organization's system of quality control—which encompasses supervisory review, emphasis on performing high-quality work, and policies and procedures designed to provide reasonable assurance of compliance with GAGAS—did not ensure that three reports produced by one of USDA OIG's work units contained the evidence needed to fully support the reports' findings and conclusions. Specifically, the USDA OIG quality control process did not ensure that supervisory review was provided throughout the audits and prior to independent referencing; that factual statements were sufficiently supported by audit working papers; and that audit staff followed quality control policies and procedures for performance audits. In addition, independent referencing review controls, which should ensure an independent examination and verification of the supporting audit documentation, did not detect factual inaccuracies prior to report issuance. Unless this control deficiency is mitigated in a timely manner, we believe that the issues identified with this one Work Unit could occur again and in other Work Units. As a result, there is less-than-reasonable assurance of the USDA OIG performing and reporting audit work in conformity with GAGAS. Attachment 2 provides a detailed, technical discussion of the issues identified and our resulting recommendations.

Monitoring of GAGAS Engagements Performed by Independent Public Accountants

In addition to reviewing the USDA OIG's system of quality control to ensure adherence with GAGAS, we applied certain limited procedures—in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency—related to the USDA OIG's monitoring of engagements conducted in accordance with GAGAS engagements by independent public accountants under contract, in which the independent public accountant served as the auditor. It should be noted that monitoring GAGAS engagements performed by independent public accountants is not an audit and, therefore, is not subject to GAGAS requirements. The purpose of our limited procedures was to determine whether the USDA OIG had controls in place to ensure that independent public accountants performed contracted work in accordance with professional standards. Our review confirmed that the USDA OIG maintained adequate contracting and monitoring practices to ensure that independent public accountant work complies with professional standards. However, our objective was not to express an opinion; accordingly, we do not express an opinion on the USDA OIG's monitoring of work performed by independent public accountants.

Basis of Opinion

Our review was conducted in accordance with GAGAS and the Council of the Inspectors General on Integrity and Efficiency's *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*, dated March 2020.

To sufficiently assess the risks implicit in the USDA OIG's audit function, we interviewed USDA OIG personnel and obtained an understanding of the nature of the USDA OIG audit organization and the design of the USDA OIG's system of quality control. We also conducted interviews with Work Unit management, audit staff, and referencers about three reports that were retracted after their initial publication to gain insight into the identified quality control deficiency. Based on our assessments, we selected GAGAS engagements and administrative files to test for conformity with professional standards and for compliance with the USDA OIG's system of quality control. The GAGAS engagements that we selected represent a reasonable cross section of the USDA OIG's audit organization, with an emphasis on higher-risk engagements.

During our review, we also tested compliance with the USDA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the USDA OIG's policies and procedures on selected GAGAS engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with the system of quality control. Prior to concluding our review, we reassessed the adequacy of the scope of the peer review procedures and met with USDA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

Responsibilities and Limitation

The USDA OIG is responsible for establishing and maintaining a system of quality control that is designed to provide the USDA OIG with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility, based on our review, is to express an opinion on the design of the system of quality control and the USDA OIG's compliance.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and may not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality

control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

We appreciate the cooperation and assistance provided by your staff. The timeliness of responses to questions and access to requested documentation were extremely helpful in completing our review.

Sincerely,



Sean W. O'Donnell

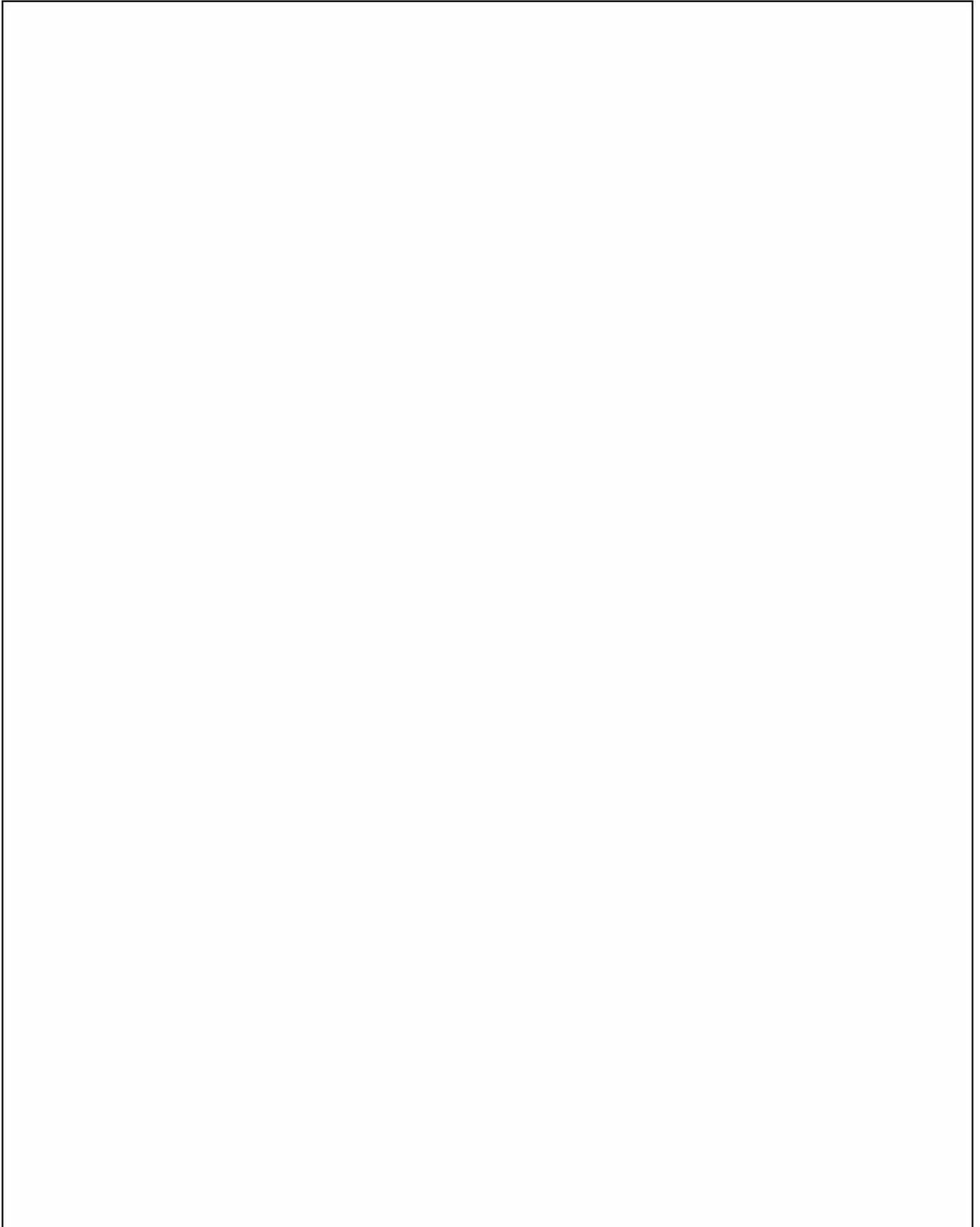
Attachments

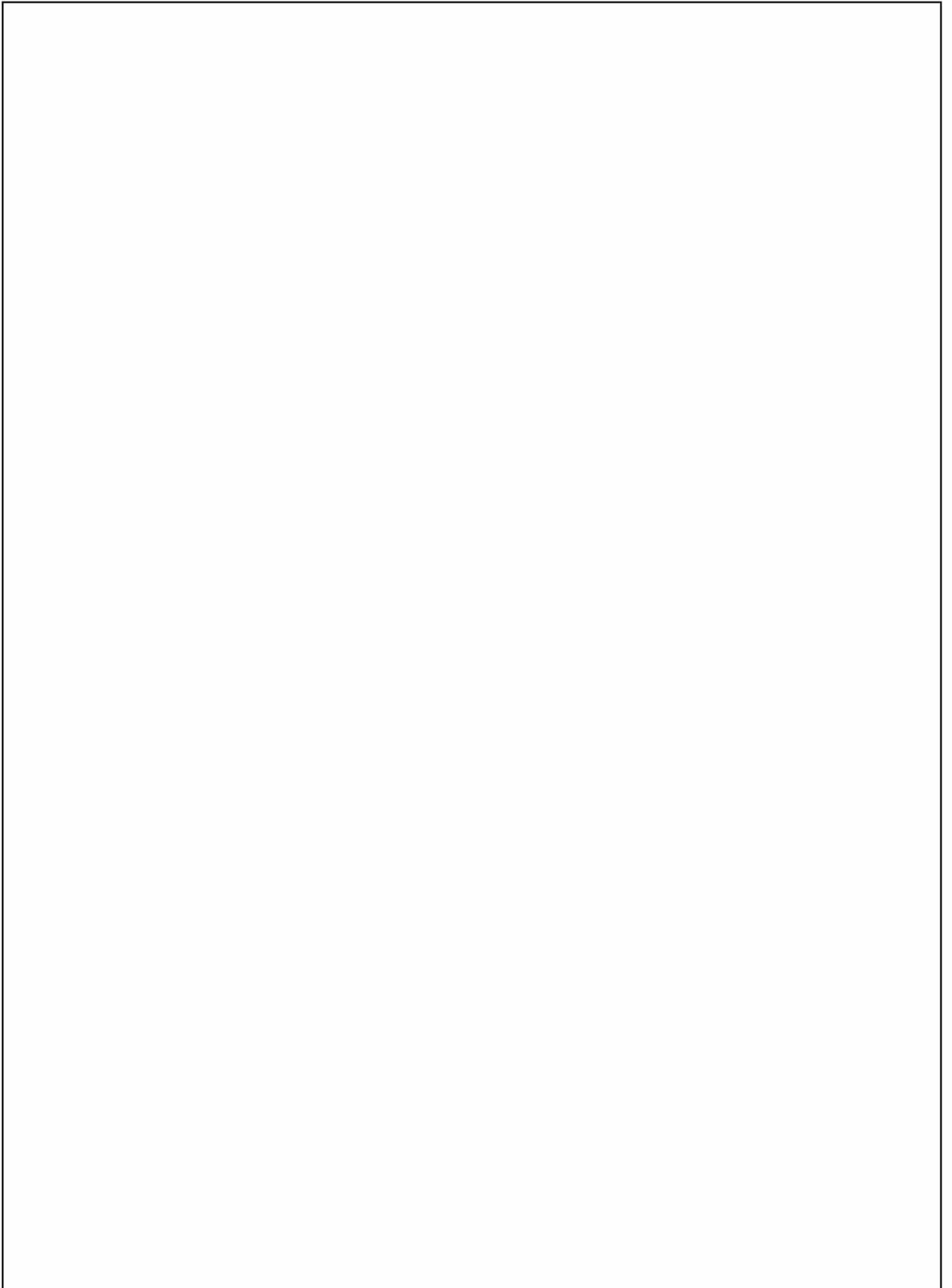
1. Scope and Methodology
2. Finding and Recommendations: USDA OIG System of Quality Control Needs to Improve
3. Observations Supporting Need for Improvements in USDA OIG System of Quality Control
4. USDA OIG Response to Draft Report Findings and Recommendations

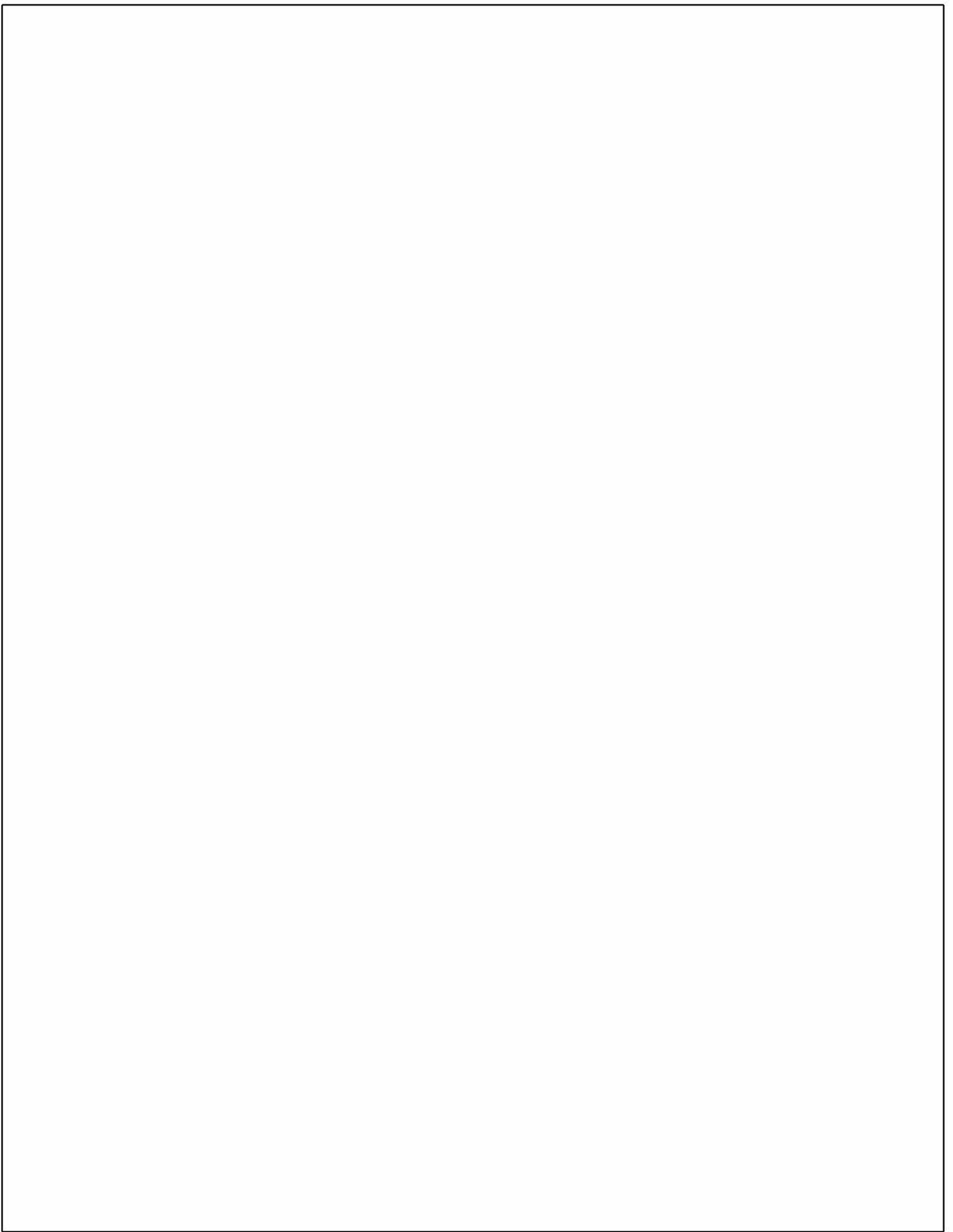
Scope and Methodology

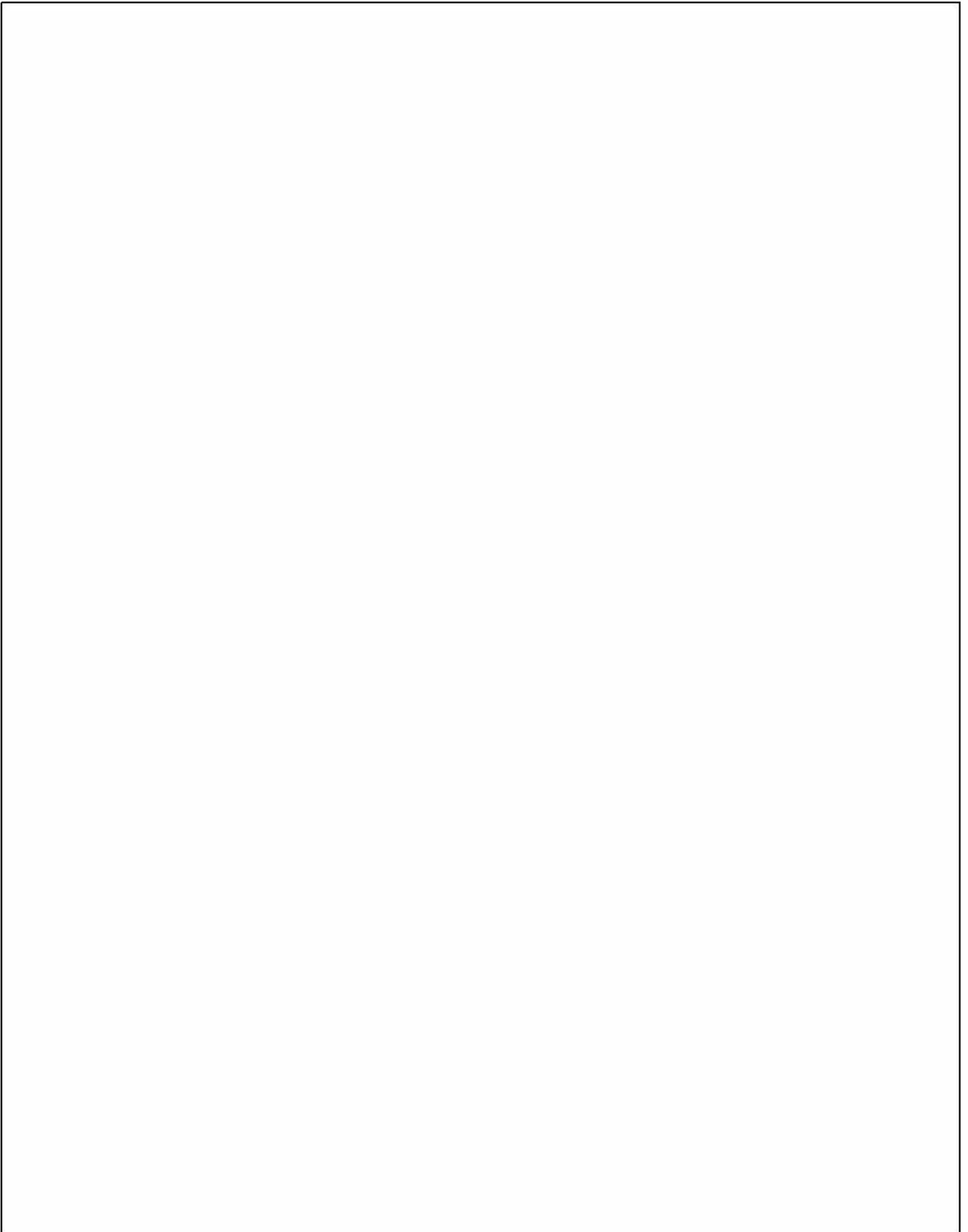
We tested compliance with the USDA OIG audit organization's system of quality control to the extent we considered appropriate based on the *Guide for Conducting Peer Reviews of Audit Organizations of Federal Office of Inspector General*. Our review included seven of the 34 audit reports issued from April 1, 2020, through March 31, 2021, as well as one audit report that was issued on February 7, 2020, as part of an internal quality assurance review. [REDACTED]

We also conducted interviews of management, audit staff, and referencing staff to obtain information about the deficiency in quality control that occurred for the three retracted reports. Our review also included the USDA OIG's monitoring of audits performed by independent public accountants from April 1, 2020, through March 31, 2021.









Recommendations and Views of Responsible Official

We recommend that the USDA OIG implement the following recommendations to improve its system of quality control:

1. Complete the remediation plan in progress to improve the Office of Audit's system of quality control processes.

View of Responsible Official—The USDA OIG concurred with Recommendation 1. The Quality Assurance Review report was issued in June 2021. The remediation plan addressing the Quality Assurance Review report recommendations was completed on October 14, 2021.

2. Office of Audit leadership provide written direction to staff on the importance of performing high-quality work; of ensuring that all facts in audit reports are supported by appropriate evidence; and of supervisors accurately attesting that they completed their reviews, that the factual statements within the reviewed audit reports are accurate, and that the audit teams are in compliance with generally accepted government auditing standards.

View of Responsible Official—The USDA OIG concurred with Recommendation 2. In June 2022, Office of Audit leadership sent out a survey that required all audit staff to confirm they read and understood the requirements and expectations of USDA OIG's system of quality control as defined in the agency's policy directive IG-7323, *System of Quality Control*. USDA OIG policy, directives, and guidance directly state the importance of performing high quality work; of ensuring that all facts in audit reports are supported by appropriate evidence; and of supervisors accurately attesting that they completed their reviews, that the factual statements within the reviewed audit reports are accurate, and that the audit teams are in compliance with generally accepted government auditing standards. This survey required all staff to acknowledge these tenets of USDA OIG's system of quality control and confirm their comprehension. All on duty staff completed this certification.

3. Hold internal training for all audit staff to reemphasize the importance of following the policy and procedures for the Office of Audit's system of quality control and referencing reviews.

View of Responsible Official—The USDA OIG concurred with Recommendation 3. The Office of Audit provided two days of training in August 2022, to all on duty auditors, reemphasizing the

importance of following the policies and procedures. This training was titled *Office of Audit System of Quality Control and Engagement Documentation Refresher Training*.

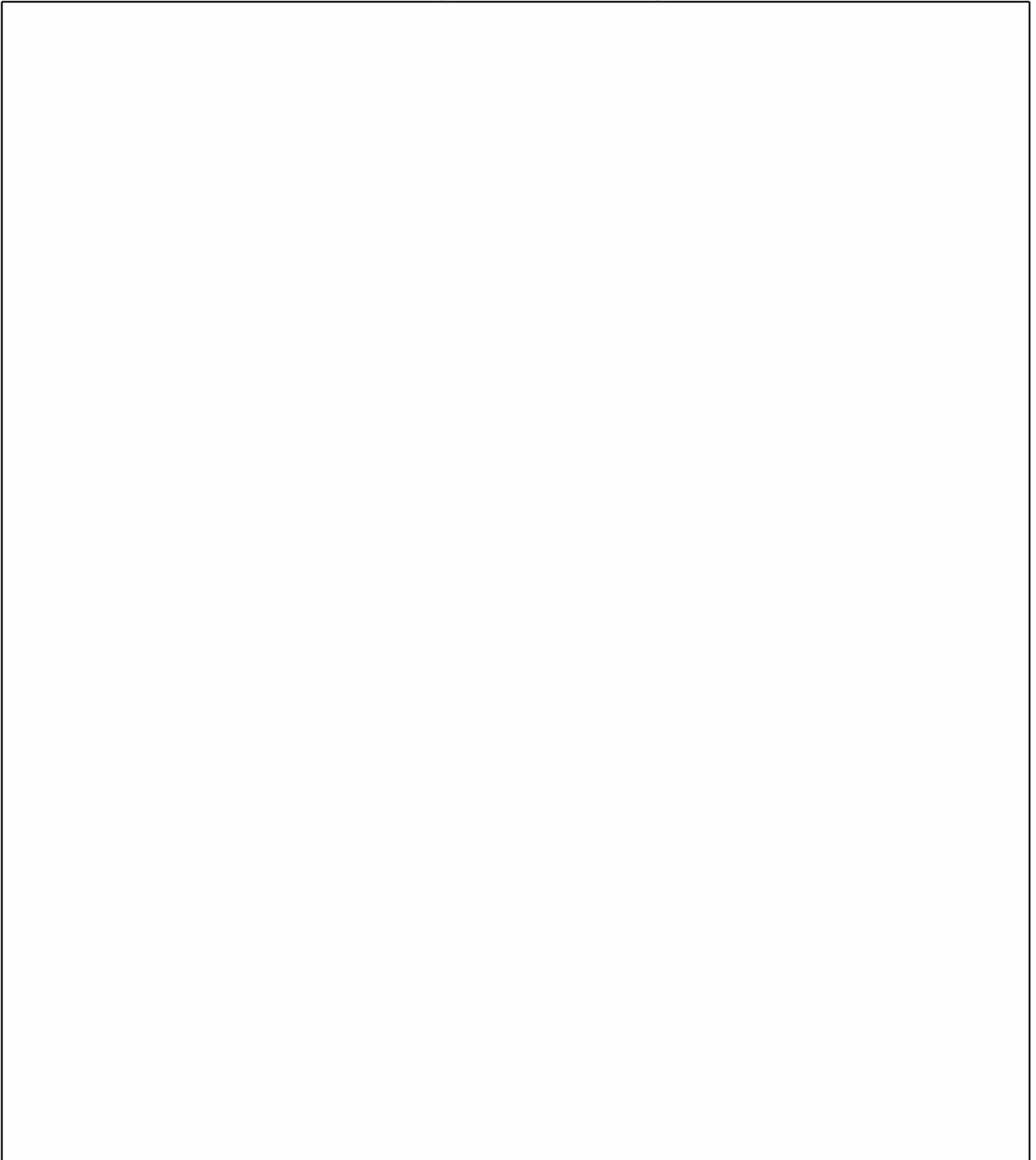
4. Improve controls over the independent referencing review process to ensure that all Office of Audit audit reports comply with professional standards, as well as USDA OIG policies and procedures; that any issues are identified prior to audit report issuance; and that criteria are established regarding when referencing should be performed outside of the work unit chain of command.

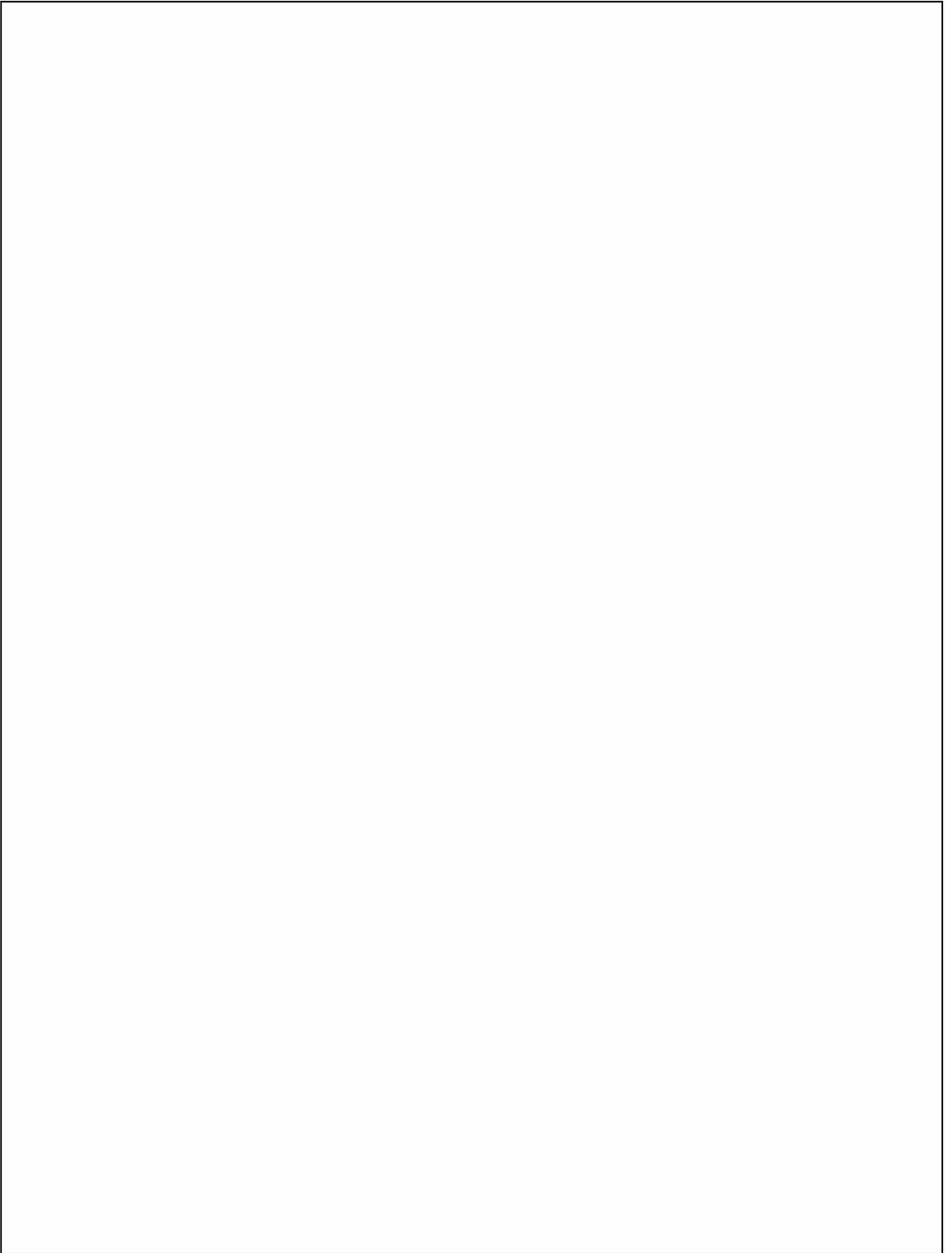
View of Responsible Official—The USDA OIG disagreed with Recommendation 4. USDA OIG’s policy directive IG-7323, *System of Quality Control*, provides guidance as to how to conduct independence referencing. As the peer review report does not recommend changing USDA OIG’s policy or practice, which is widely employed by other Offices of Inspector General, USDA OIG feels its policy is adequate. As noted above, the Office of Audit provided two days of training in August 2022, which covered the referencing review process in detail. Although USDA OIG does not agree with the recommendation, it has elected to strengthen its existing practice. In January 2022, the Assistant Inspector General for Audit directed that referencing be performed outside the work unit chain of command as an interim measure. That practice, which USDA OIG continues to follow, also provides that any referencing performed within the work unit chain of command requires justification and approval from the applicable Deputy Assistant Inspector General for Audit. The Office of Audit is assessing the feasibility and the need to continue this practice and will consult with stakeholders before making any permanent changes to policy. If a change is warranted, policy directives will be updated.

5. Schedule an off-cycle peer review with the Council of the Inspectors General on Integrity and Efficiency to verify that changes to the USDA OIG’s system of quality control provide reasonable assurance of conformance with generally accepted government auditing standards.

View of Responsible Official – The USDA OIG concurred with Recommendation 4. USDA OIG is coordinating with the CIGIE Audit Peer Review (APR) Committee to schedule an off-cycle peer review.

***Observations Supporting Need for Improvements
in USDA OIG System of Quality Control***







USDA OIG Response to Draft Report Findings and Recommendations



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



10/26/22

The Honorable Sean W. O'Donnell
Inspector General
U.S. Environmental Protection Agency
1200 Pennsylvania Ave., N.W.
Washington, D.C. 20460

Dear Mr. O'Donnell:

Thank you for the opportunity to comment on the draft peer review report of U.S. Department of Agriculture (USDA) Office of Inspector General's (OIG's) Office of Audit, dated February 22, 2022. Since that date, USDA OIG and the U.S. Environmental Protection Agency (EPA) OIG engaged in the peer review dispute process, as described in the CIGIE peer review guide. During the first request for review, the Assistant Inspectors General for Audit (AIGA) Panel determined that EPA OIG should accept USDA OIG's explanation and comments to the draft report and that "...the matters that arose during the peer review do not constitute a deficiency that would support the opinion of 'pass with deficiencies'...". EPA OIG appealed this decision and the CIGIE Audit Committee convened an Inspectors General (IG) Panel to address the second request for review. USDA OIG is accepting the IG Panel's determination, dated August 24, 2022, that it should accept the results of the peer review, a *pass with deficiencies*.

USDA OIG is committed to conducting our audit work in accordance with the applicable professional standards of quality. As such, USDA OIG has implemented, or taken significant steps towards implementing, corrective actions to address the five recommendations in the draft report. This work was completed in response to an earlier internal Quality Assurance Review report from our Office of Compliance and Integrity, a key control activity of USDA OIG's system of quality control. The Office of Audit executed a remediation plan to address a few instances where one work unit deviated from aspects of internal OIG policies and guidance, not governmental auditing standards. At the initiation of our peer review, the reports questioned and then the remediation plan were disclosed to and reviewed by your team. Therefore, our remediation of the issues identified by our internal review, as described below, also serve to address the similar recommendations made in your report. We look forward to the off cycle peer review to demonstrate the full implementation of the correction actions described below.

Recommendation 1 - Complete the remediation plan in progress to improve the Office of Audit's system of quality control processes.

We agree with the recommendation. The Quality Assurance Review report was issued in June 2021. The remediation plan addressing the Quality Assurance Review report recommendations was completed on October 14, 2021.

Recommendation 2 - Office of Audit leadership provide written direction to staff on the importance of performing high quality work; of ensuring that all facts in audit reports are supported by appropriate evidence; and of supervisors accurately attesting that they completed their reviews, that the factual statements within the reviewed audit reports are accurate, and that the audit teams are in compliance with generally accepted government auditing standards.

We agree with the recommendation. In June 2022, Office of Audit leadership sent out a survey that required all audit staff to confirm they read and understood the requirements and expectations of our system of quality control as defined in our policy directive IG-7323, *System of Quality Control*. USDA OIG policy, directives, and guidance directly state the importance of performing high quality work; of ensuring that all facts in audit reports are supported by appropriate evidence; and of supervisors accurately attesting that they completed their reviews, that the factual statements within the reviewed audit reports are accurate, and that the audit teams are in compliance with generally accepted government auditing standards. This survey required all staff to acknowledge these tenets of our system of quality control and confirm their comprehension. All on duty staff have completed this certification.

Recommendation 3 - Hold internal training for all audit staff to reemphasize the importance of following the policy and procedures for the Office of Audit's system of quality control and referencing reviews.

We agree with the recommendation. The Office of Audit provided 2 days of training in August 2022, to all on duty auditors, reemphasizing the importance of following the policies and procedures. This training was titled *Office of Audit System of Quality Control and Engagement Documentation Refresher Training*.

Recommendation 4 - Improve controls over the independent referencing review process to ensure that all Office of Audit audit reports comply with professional standards, as well as USDA OIG policies and procedures; that any issues are identified prior to audit report issuance; and that criteria are established regarding when referencing should be performed outside of the work unit chain of command.

We do not agree with the recommendation. Our policy directive IG-7323, *System of Quality Control* provides guidance as to how to conduct independent referencing. As the peer review report does not recommend changing our policy or practice, which is widely employed by other Offices of Inspector General, we feel our policy is adequate. As noted above, the Office of Audit provided 2 days of training in August 2022, which covered the referencing review process in detail. Although we do not agree with the recommendation, we have elected to strengthen our existing practice. In January 2022, the Assistant Inspector General for Audit directed that referencing be performed outside the work unit chain of command as an interim measure. That practice, which we continue to follow, also provides that any referencing performed within the work unit chain of command requires justification and approval from the applicable Deputy Assistant Inspector General for Audit. The Office of Audit is assessing the feasibility and the need to continue this practice and will consult with stakeholders before making

any permanent changes to policy. If a change is warranted, policy directives will be updated.

Recommendation 5 - Schedule an off-cycle peer review with the Council of the Inspectors General on Integrity and Efficiency to verify that changes to the USDA OIG's system of quality control provide reasonable assurance of conformance with generally accepted government auditing standards.

We agree with this recommendation. We are coordinating with the CIGIE Audit Peer Review (APR) Committee to schedule an off cycle peer review.

While we are following the CIGIE Audit Committee's advice to accept the rating provided by EPA OIG, we would be remiss if we did not point out several portions of the peer review official draft report that contain inaccuracies. Therefore, we are providing the following supplemental information to ensure a more clear and complete picture of the conditions described. The following report sections contain inaccuracies:

Overall Report and Enclosure 3, Observations Supporting Need for Improvements in USDA OIG System of Quality Control: In the peer review report and corresponding Enclosure 3, EPA OIG states that it found inaccuracies in USDA OIG reports. However, all inaccuracies EPA OIG listed in its report were identified by USDA OIG's quality control efforts and provided to the peer review team either on May 7, 2021 (Quality Assurance Review results—12 statements) or August 10, 2021 (re-referencing results—9 statements).¹

Basis of Opinion: The second paragraph in this section of the report does not properly reflect the order of actions performed by the peer review team. Specifically: (1) the initial sample was selected *before* (not after) obtaining an understanding of USDA OIG's audit organization or conducting any interviews, and (2) the sample was expanded to the three reports undergoing additional referencing *before* (not after) conducting additional interviews with Work Unit staff for those three reports.

Misrepresentations of Engagements Reviewed: The peer review report included non-GAGAS engagements in statements reflecting reports reviewed and the universe of reports issued despite USDA OIG providing clarity on the identification of our engagement products, raising the comingled presentation, and highlighting the CIGIE

¹ Although the peer review team maintains they performed their own testing of sampled statements, EPA OIG provided conflicting information on statements sampled for one report between a briefing paper provided on August 6, 2021, during the peer review fieldwork, and the draft report. Specifically, the draft report enclosure describes three observations from an engagement, whereas the briefing document only noted one of those statements was sampled. This discrepancy has not been explained.

Guide requirement to separately assess and report on these different types of engagements.^{2,3}

Audit work of USDA OIG staff was not properly supervised by audit supervisors or those designated to supervise. (GAGAS, 8.87): None of the briefing papers the peer review team shared between May 27 and August 24, 2021, for the sampled engagements, noted any concerns with supervision. Specifically, the briefing papers for the three reports that underwent re-referencing all stated: “USDA OIG supervisory review is documented throughout this project. The peer review team reviewed that the staff was properly supervised in accordance with GAS 8.87.” Although we asked, EPA OIG did not provide any updated or revised briefing papers that would reflect the conclusion presented in the report. Given the difference between the briefing papers and report, USDA OIG inquired multiple times with EPA OIG to explain how it aggregated the results of its review to derive an opinion of *pass with deficiencies*. To date, EPA OIG has not provided an explanation per the decision tree depicted in the CIGIE Peer Review Guide. Therefore, following the documentation and information communicated to us during the course of the peer review, we are unable to reach the same conclusions EPA OIG presented in the report, including how EPA OIG summarized and aggregated the checklist results and systematically aggregated the overall results of the peer review work to reach their conclusions, as required by the CIGIE Guide.⁴

Additionally, the supervision noncompliance in the peer review report directly correlates supervision to one workpaper within the engagement file, stating that the workpaper “...serves as an indicator that the final report is ready for independent referencing review.” USDA OIG policies and procedures do not include any assessment of this workpaper in relation to referencing or our system of quality control. USDA OIG policy, IG-7323, *System of Quality Control*, states that the unassociated referencing review is the tent pole around which the Office of Audit’s system of quality control is centered and details the four criteria required to indicate that a report is ready for referencing. In addition, USDA OIG explained to the peer review team that this one workpaper, though a tool, was not the sole reflection of how USDA OIG tracked engagement supervision. Rather, supervisory signoff and commentary in the audit documentation suite is a greater indication of supervision; a practice widely applied in the auditing sector.

USDA OIG auditors did not sufficiently support findings, and conclusions prior to report issuance. (GAGAS 8.133): The section specifically highlights one report’s mathematical

² EPA OIG comingled GAGAS engagements with non-audit service reports and engagements performed by a contractor, whose performance was monitored by OIG (IPA monitoring). Specifically, the peer review included non-GAGAS engagements in multiple report statements. Examples include statements reflecting the number of engagements reviewed (of the 7, 2 are non-GAGAS engagements); the universe of engagements issued (of the 34, 7 are non-GAGAS engagements); the table of engagements reviewed (of the 11, 2 are non-GAGAS engagements); and the deficiency introduction (“8 of the 11 audit engagements,” both the 8 and the 11 include 2 non-GAGAS engagements).

³ The assessment and reporting requirements for both non-audit services and IPA monitoring are addressed in multiple locations in the CIGIE Peer Review Guide, § 2, ¶ 18, 19, 22, 31, 38, and 52.

⁴ The CIGIE Guide describes the types of ratings and considerations for each, including pass with deficiencies, and assessments of pervasiveness and the impact on credibility and reliability. CIGIE Guide, § 2, ¶ 51.

errors for monetary results, without providing the additional clarifying information shared with EPA OIG that USDA OIG decided to withdraw that report, in part because the assessment of evidence by the audit team was not adequate to support the reported monetary results. USDA OIG's business reason to withdraw the report also included that the non-monetary issues in the report were not unique from findings reported in other OIG audit products and that OIG, at the time, had other ongoing work with similar objectives - to assess the agency's ability to issue program payments.

Work Unit Control Environment: Much of this portion of the peer review report misrepresents conversations relating to discussions around reasonable versus absolute assurance with the engagement team whose report had two minor mathematical errors, resulting in less than a 1-percent change in monetary results. These two mathematical errors account for 13 of the 21 changed statements detailed in the peer review report Enclosure 3. In addition, statements and determinations related to timeliness pressures and the impact on referencing reviews were based on selected testimonial evidence collected from a few individuals within one work unit. Although EPA OIG interviewed a wide range of staff and managers representing most Work Units, the report only highlighted select statements from the one Work Unit where the discrepancies were identified.

We appreciate the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact Mr. Steve Rickrode, Acting Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

PHYLLIS
FONG

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PHYLLIS FONG
Date: 2022.10.26
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Phyllis K. Fong
Inspector General