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Central Intelligence Agency



Washington, D.C. 20505

IG 03-0442

25 July 2003

Inspector General  
703-874-2555

MEMORANDUM FOR: Anne M. Sigmund  
Acting Inspector General  
Department of State

SUBJECT: (U//FOUO) Memorandum Report: External  
Quality Control Review of the Security  
Program Evaluation and Assessment Division,  
Office of Security and Intelligence Oversight  
(2003-0011-AS)

1. (U//FOUO) The Central Intelligence Agency Office of Inspector General reviewed the system of quality control for the Office of Security and Intelligence Oversight (SIO), Security Program Evaluation and Assessment Division (SPEAD) in effect during the fiscal year ending 30 September 2002. Our review was intended to satisfy the requirement for external quality control review established under *Government Auditing Standards* promulgated by the Comptroller General.

2. (U//FOUO) The objectives of our review were to determine whether SPEAD's internal quality control system is in place and operating effectively to provide reasonable assurance that policies, procedures, and applicable auditing standards are being followed. Our review was conducted in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE) in its February 2002 policy statement on internal quality control and external quality control reviews.

3. (U//FOUO) In conducting our review, we interviewed staff, evaluated SPEAD's policies and procedures, assessed the internal quality assurance program, and reviewed selected audit reports and supporting working papers. We selected for detailed review two of the three audits completed by SPEAD during fiscal year 2002.\*

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\* (U//FOUO) We selected the following two audits for detailed review: *Management of the Armored Vehicle Program*, February 2002; and *Enhancing the Protection of Classified Documents at State Department Headquarters*, June 2002.

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SUBJECT: (U//FOUO) Memorandum Report: External Quality Control Review of the Security Program Evaluation and Assessment Division, Office of Security and Intelligence Oversight (2003-0011-AS)

4. (U//FOUO) In our opinion, the system of quality control for SPEAD in effect for the fiscal year ending 30 September 2002 was designed in accordance with the quality standards established by the PCIE and provided SPEAD with reasonable assurance of material compliance with professional standards in the conduct of its audits. Therefore, we are issuing an unqualified opinion on your system of audit quality control.

5. (U//FOUO) Although an effective internal quality control system has been established, we believe that the system could be strengthened by periodic reviews of SPEAD's audit function conducted by an appropriately staffed internal review team as prescribed by the PCIE and by performance of external quality control reviews on a regular basis. We also found that SPEAD audit personnel do not always follow the internal policies and procedures prescribed in the *SPEAD Audit Handbook* for conducting and supervising audit assignments and preparing audit working papers. Additionally, the *SPEAD Audit Handbook* needs updating and consideration should be given to adopting the Office of Audits *Audit Manual* for SPEAD use. These issues are discussed in greater detail in the attached Letter of Comments, which includes recommendations for corrective action. The letter also addresses an issue unrelated to SPEAD's system of quality control that was discussed in the prior external quality control review but was not fully resolved. None of the issues discussed in the letter affect our overall opinion.

6. (U//FOUO) Comments on a draft of this report and the Letter of Comments were obtained from the Assistant Inspector General for Security and Intelligence Oversight in July 2003. The Assistant Inspector General stated that he and his staff concurred with the recommendations included in the draft Letter of Comments and are working to implement them in a timely manner. The specific actions SIO intends to take to implement the recommendations have been incorporated into our final Letter of Comments.

  
an L. Helgerson

(b)(6)

Attachment

SUBJECT: (U//FOUO) Memorandum Report: External Quality Control Review of the Security Program Evaluation and Assessment Division, Office of Security and Intelligence Oversight (2003-0011-AS)



(b)(3)

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Attachment

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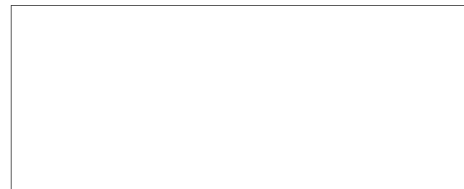
MEMORANDUM FOR: Anne M. Sigmund  
Acting Inspector General  
Department of State

SUBJECT: (U//FOUO) Letter of Comments: External Quality  
Control Review of the Security Program Evaluation  
and Assessment Division, Office of Security and  
Intelligence Oversight (2003-0011-AS)

1. (U//FOUO) The Central Intelligence Agency Office of Inspector General reviewed the system of quality control for the Office of Security and Intelligence Oversight (SIO), Security Program Evaluation and Assessment Division (SPEAD) in effect for the fiscal year ending 30 September 2002 and provided the results in a memorandum report dated 25 July 2003. This letter of comments should be read in conjunction with that report.

2. (U//FOUO) Our review was designed to evaluate SPEAD's system of quality control and compliance with that system. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). Our review, however, was not designed to disclose all weaknesses in the system of quality control or all instances of noncompliance.

3. (U//FOUO) The comments and recommendations in this letter pertaining to strengthening SPEAD's internal quality control system and compliance with internal policies and procedures for conducting and supervising audit assignments were considered in expressing the opinion set forth in our report. This letter does not alter that opinion.



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4. (U//FOUO) This letter also addresses an issue unrelated to SPEAD's system of quality control that was discussed in the prior external quality control review but was not fully resolved.

5. (U//FOUO) Comments on the recommendations contained in the draft letter of comments were received from the Assistant Inspector General for Security and Intelligence Oversight (AIG/SIO) and his staff and are incorporated in this final letter.

**(U) Internal and External Quality Control Reviews**

6. (U//FOUO) SPEAD is not satisfying the objectives of an independent internal review as prescribed by PCIE guidance. PCIE guidance regarding the general standard on quality control contained in the 1994 Government Accounting Office (GAO) *Government Auditing Standards* requires periodic internal review by an independent Office of Inspector General (OIG) team to evaluate whether the audit function, as a whole, is carried out in accordance with government auditing standards, Office of Management and Budget circulars, PCIE audit policy statements, and statutory provisions applicable to the audit organization. SPEAD uses the PCIE *Checklist for Review of Individual Performance Audits* in conjunction with an independent review of draft audit reports as an alternative means of achieving the objectives of independent internal review.<sup>1</sup> The independent reviewer of SPEAD audit reports is supposed to determine whether GAO standards for audit evidence have been met. In the two completed audits we reviewed, however, we found no evidence that the PCIE audit checklist was completed nor did the independent reviewer attest in any discernable manner to compliance with GAO standards for audit evidence.<sup>2</sup>

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<sup>1</sup> (U//FOUO) In our 1994 external quality control review, we recommended that SPEAD implement quality assurance reviews for audits or develop and implement an alternative means of achieving the objectives of the quality assurance function. SPEAD opted to establish alternative procedures.

<sup>2</sup> (U//FOUO) We selected the following two SPEAD audits for detailed review: *Management of the Armored Vehicle Program*, February 2002; and *Enhancing the Protection of Classified Documents at State Department Headquarters*, June 2002.

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7. (U//FOUO) In our 1998 external quality control review, we noted that SPEAD's use of the PCIE audit checklist was not, in all instances, effective in providing assurance that organization policies and procedures and applicable auditing standards were being followed. We recommended that SIO revise its directive on quality assurance procedures to provide for internal review of SPEAD's internal quality control system by an appropriately staffed internal review team. That recommendation has not been implemented.

8. (U//FOUO) In a recent memorandum concerning implementation of the recommendations from our 1998 external quality control review, SIO indicated that SPEAD does not have sufficient staff to implement the internal quality control system outlined in the PCIE *Policy Statement on Internal Quality Control and External Quality Control Reviews*. SIO management pointed out that the PCIE guidelines allow an alternative system of internal controls if the organization's written policies and procedures explain how alternative controls can be effective for that organization. SIO management told us that they plan to update SIO's quality assurance directive to ensure that it conforms to PCIE guidelines.

9. (U//FOUO) SIO should reconsider its decision to employ an alternative means of achieving the objectives of PCIE guidelines on independent internal review. SIO is a subset of the Department of State/OIG, which has auditors conducting audits in both SIO and its Office of Audits. We believe that personnel from the Office of Audits could provide the review team needed to perform a comprehensive internal review of SPEAD as described in the PCIE guidelines. The Office of Audits employs in excess of 30 audit personnel whom we were told possess security clearances. Beyond that, both SPEAD audits we reviewed were "sensitive but unclassified." In light of the fact that current procedures have not been wholly effective, we believe SIO should consider use of auditors from the Office of Audits to form internal review teams to periodically review SPEAD's audit function and its products.

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**(U//FOUO) Recommendation #1: Use auditors from the Office of Audits to perform the independent internal review function for SPEAD, as called for by the PCIE guidelines.**

10. (U//FOUO) In commenting on a draft of this letter, the AIG/SIO and his staff concurred with Recommendation #1 and stated that SIO will work with the Office of Audits to establish an agreement for using their staff to perform independent internal reviews of SPEAD audit reports.

11. (U//FOUO) Government auditing standards prescribe that audit organizations conducting audits in accordance with those standards should have an external quality control review at least every three years. The last external quality control review of SPEAD's operation was conducted in 1998. Because SPEAD is not included in the Office of Audits' external quality control review program, it is important that SPEAD adhere to a three-year schedule as prescribed by the standards. SPEAD can better adhere to this schedule if it includes in its quality assurance procedures the requirement for external quality control review on a three-year cycle.

**(U//FOUO) Recommendation #2: Establish a schedule of external quality control reviews on a three-year cycle and revise SPEAD's quality assurance procedures to include the requirement for external quality control review.**

12. (U//FOUO) The AIG/SIO and his staff concurred with Recommendation #2 and stated that SIO will revise its quality assurance procedures to include the requirement for external quality control review. SIO will also work with the appropriate agency to establish a schedule of quality control reviews on a three-year cycle.



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**(U//FOUO) Adherence to SPEAD Audit Handbook Policies and Procedures**

13. (U//FOUO) SPEAD's auditors and managers do not consistently adhere to the policies and procedures prescribed in SPEAD's *Audit Handbook* in conducting and supervising audits. The two audits we examined lacked memorandums of team meetings, audit assignment checklists, and finding worksheets, which are required by the *Audit Handbook*. For one of the audits, the audit exit conference was not documented, and for neither audit were audit programs referenced to working papers. When an audit program is not referenced, it is difficult to determine whether audit steps were completed and audit objectives satisfied.<sup>3</sup> In addition, a number of the technical aspects of working paper preparation—such as cross-referencing and initialing of working papers by auditors and audit managers—were not consistently performed. SPEAD personnel cited increased pressures to complete audits quickly and lack of management continuity over an extended period of time due to a reorganization within the OIG as factors contributing to personnel not fully complying with SPEAD policies and procedures in conducting and completing their work.

14. (U//FOUO) Our prior external quality control review of SPEAD found similar inconsistencies. In that review, we recommended that SPEAD emphasize the importance of adherence to the policies and procedures prescribed in the *SPEAD Audit Handbook* and develop and incorporate into the SPEAD system of quality control review a checklist designed to assess compliance with internal policies and procedures. The recommendation was not implemented. In a recent memorandum concerning the implementation status of the recommendations in the last external

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<sup>3</sup> (U//FOUO) SPEAD's *Audit Handbook* does not have a specific requirement for referencing or cross-referencing the audit program to associated working papers, but it does require related working papers to be cross-indexed. Although not explicitly required in the 1994 revision of *Government Auditing Standards*, we believe that cross-referencing the audit program to associated working papers is a widely accepted standard for OIG audit components. In fact, the Department of State/OIG Office of Audits, in its audit manual, requires cross-indexing of the audit program to the working papers.

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quality control review, current SIO management indicated that they still intend to implement the recommendation. In order for policies and procedures to be effective and promote quality work, they must be followed on a consistent basis, and recommendations that promote those goals must be implemented.

**(U//FOUO) Recommendation #3: Develop and incorporate into the SPEAD system of quality control review a checklist designed to assess compliance with the internal policies and procedures prescribed in the SPEAD Audit Handbook.**

15. (U//FOUO) The AIG/SIO and his staff concurred with Recommendation #3 and stated that SIO plans to develop the checklist when OIG/SIO quality control procedures are updated.



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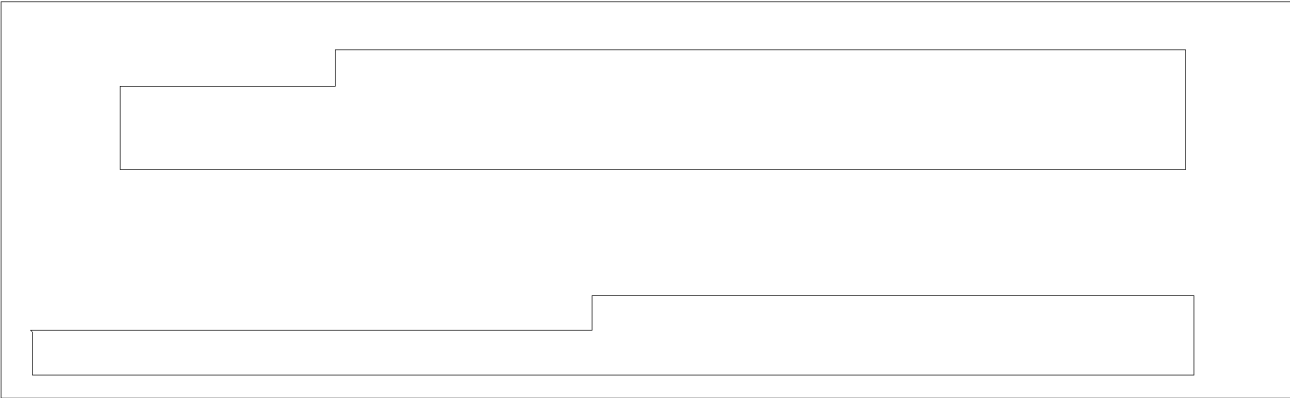
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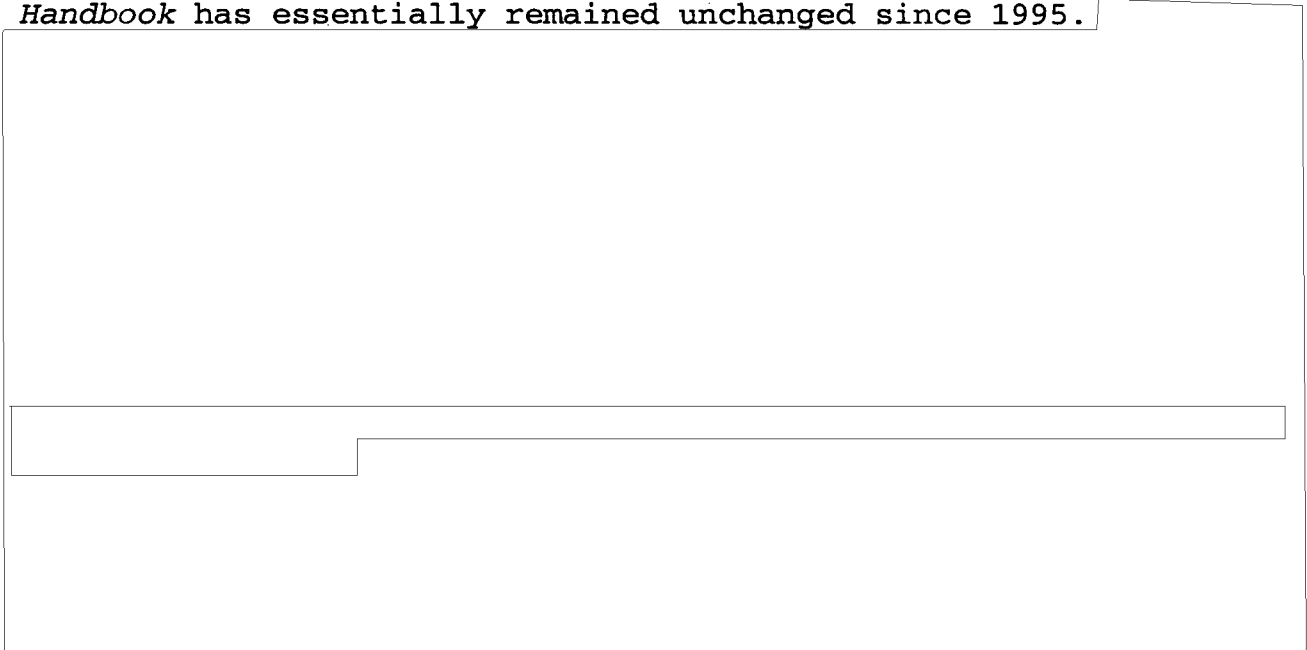
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(U//FOUO) The Audit Handbook Needs To Be Updated

18. (S) In our review, we noted that the SPEAD Audit Handbook has essentially remained unchanged since 1995.



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19. (U//FOUO) SPEAD and the Office of Audits are a part of the same OIG, and both organizations perform their work in accordance with government auditing standards, but each organization has its own audit manual. We reviewed both manuals and found that, except for a few directives and procedures specific to SIO, the Office of Audits *Audit Manual* represents a comparable, or even more complete, resource for SPEAD auditors. Any SIO-specific policies or procedures not included could be easily appended to the Office of Audits manual. We believe that if SPEAD adopted the Office of Audits *Audit Manual* for its own use, it would promote consistency within the OIG, ease the transition for auditors moving between audit organizations, and relieve SPEAD of the burden of making revisions resulting from changes in *Government Auditing Standards*.

**(U//FOUO) Recommendation #5: Revise the SPEAD Audit Handbook to remove outdated material and update for changes to policies and procedures. Consider adopting the Office of Audits Audit Manual for use by SPEAD auditors in performing audits.**

20. (U//FOUO) The AIG/SIO and his staff concurred with Recommendation #5 and stated that SIO will work with the Office of Audits to establish an agreement for adopting its audit manual for SPEAD auditors to use when performing audits.



John L. Helgerson

(b)(6)

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