

**FEDERAL LABOR RELATIONS AUTHORITY (FLRA)
OFFICE OF INSPECTOR GENERAL(OIG)**

REPORT ON

**QUALITY CONTROL REVIEW OF FLRA OIG AUDIT OPERATIONS
FOR THE PERIOD APRIL 1, 2013 THROUGH MARCH 31, 2014**

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Federal Labor Relations Authority
Office of Inspector General

Independent Accountant's Report on
Review of FLRA OIG's Quality Control and Assurance

Report Date: July 2, 2014

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Samson T.A. and Associates, PLLC

GSA Federal Supply Schedule, SBA 8(a) & SDB, DBE and MBE
DC Supply Schedule, DC LSDBE, and DC DOT DBE

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System Review Report

July 2, 2014

To: Dana Rooney-Fisher, Inspector General
Federal Labor Relations Authority, Office of Inspector General

We have reviewed the system of quality control for the audit functions of the Federal Labor Relations Authority (FLRA) Office of Inspector General (OIG) (the reviewed audit organization) in effect for April 1, 2013 through March 31, 2014. Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures.

The OIG is responsible for designing a system of quality control and complying with it to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the OIG's compliance therewith based on the review. The nature, objectives, scope, limitations of, and the procedures performed in a system review are described in the standards and guidelines.

In our opinion, the system of quality control for the OIG in effect for the period ended March 31, 2014 has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. FLRA OIG can receive a rating of *pass*; *pass with deficiency (ies)* or *fail*. The OIG has received a peer review rating of *pass*.

Samson T.A. & Associates, PLLC

Washington, DC
July 2, 2014

Executive Summary

Samson T.A. and Associates, PLLC was awarded a contract to perform an external peer review of the quality control and assurance of Federal Labor Relations Authority (FLRA) Office of Inspector General (OIG) to determine whether the audit organization's system of quality control is suitably designed and the audit organization is complying with its quality control system in order to provide FLRA OIG with reasonable assurance of conforming with applicable professional standards. The OIG is required, under Government Auditing Standards to have in place a system of quality control designed to provide reasonable assurance of compliance with professional standards, applicable rules and regulatory requirements. The FLRA OIG is required to establish, implement, and maintain a system of quality control for its audits and attestation engagements.

To accomplish our objectives, we obtained an understanding of the quality control system in place at the FLRA OIG. We reviewed the 2011 issue of the Government Accountability Office *Government Auditing Standards* for quality controls in the Federal Government agencies, as well as FLRA OIG's Audits and Program Evaluations Policy, A101, July 2013v. We also reviewed any applicable statutory requirements, Office of Management and Budget guidelines, laws and regulations; and designed our review procedures to identify any gaps in FLRA OIG's quality control system and determined if any deficiencies exist.

We held discussions with officials in the OIG at FLRA. During the entrance conference meeting, we advised the Inspector General (IG) of our review commencement date, timelines for fieldwork and deliverables after the exit conference. During our review of the engagements, we also held follow-up discussion and meetings with the IG on the schedule of accomplishments as deemed appropriate.

In carrying out this methodology, we primarily applied review techniques, such as inquiry and observations, review of policies, and examination of engagements to obtain sufficient, appropriate evidence to provide reasonable basis for our conclusion, related to our review objectives. We obtained and reviewed audit work papers and supporting documentation.

Based on the results of the procedures performed, FLRA OIG's quality control policies and procedures are adequate and complied with in all respect for the period April 1, 2013 through March 31, 2014.

Section 2: Introduction

Introduction

This review report is presented by Samson T.A. and Associates, PLLC, to the Federal Labor Relations Authority (FLRA) Office of Inspector General (OIG) on external peer review of FLRA OIG's Quality Control and Assurance for the period April 1, 2013 through March 31, 2014. The report on the quality control and assurance includes the overall approach to conducting the external peer review of FLRA OIG system of quality control in accordance with the Government Accountability Office (GAO) *Government Auditing Standards* (GAS) and the Guide for "Conducting External Peer Reviews of the Audit Organizations of the Federal Office of Inspector General", and any additional required procedures contained in guidance issued by the Office of Management and Budget guidance, and statutory provisions applicable to OIG audits.

2.1 Background

The FLRA is the Federal agency responsible for establishing policies and guidance regarding the labor-management relations program for non-postal, Federal employees worldwide, and including employees represented in 2,200 bargaining units. The FLRA was created by Title VII of the Civil Service Reform Act of 1978. The Statute protects the rights of Federal employees to form, join, or assist a labor organization or to refrain from such activity freely and without fear of penalty or reprisal. FLRA's mission is to promote stable, constructive labor-management relations in the Federal Government by resolving and assisting in the prevention of labor disputes in a manner that gives full effect to collective bargaining rights of employees, unions, and agencies.

The OIG is an independent office within the FLRA that oversees the audits, program evaluation, investigation, and supervision of independent public accountants (IPA) and outside consultants that are contracted to perform assignments for FLRA. Although the office is part of FLRA, Congress provides the OIG with funding separate from FLRA to ensure their independence.

The FLRAOIG was created pursuant to the Inspector General Act of 1978 (the IG Act). The IG Act, as amended, establishes OIG's fundamental responsibilities, and its process is designed to ensure that the OIG complies with the Act, as amended. The IG Act, as amended, requires the Inspector General to:

- conduct and supervise audits and investigations relating to the programs and operations of the establishments;
- provide leadership and coordination and recommend policies for activities designed:
 - (1) to promote economy, efficiency, and effectiveness in the administration of, and
 - (2) to prevent and detect fraud and abuse in, such programs and operations;
- provide a means for keeping the Chairman, Members and the Congress fully informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

The OIG of the FLRA conducts and supervises the audits and compliance reviews of FLRA programs and operations. The OIG is also responsible for overseeing the agency's annual financial statements audit, review of the Federal Information Security Management Act of 2002 (FISMA), review of internal control, and conduct performance audits of individual FLRA divisions.

The OIG follows the quality standards of the GAO *Government Auditing Standards* to conduct audits, review of programs and operations. The FLRA OIG is responsible for designing a system of quality control and complying with it to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and OIG compliance with the quality control standards and requirements based on our review.

2.2 Objective, Scope, and Methodology

Objectives:

The purpose of the engagement was to conduct an independent peer review of FLRA OIG in accordance with the GAO *Government Auditing Standards* (the "Yellow Book"), 2011v, the President's Council on Integrity and Efficiency, and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) under the Inspector General Reform Act 2008.

The specific objectives of the external peer review are to determine:

- Whether the reviewed OIG audit organization's system of quality control was suitably designed; and
- Whether the audit organization is complying with its quality control system in order to provide the OIG with reasonable assurance of conforming to applicable professional standards.

The IG Act of 1978 requires that external peer reviews be performed by audit entities of the Federal Government, including the GAO. All OIGs and Federal Government agencies and departments are exclusively required to have external peer reviews performed by an independent organization.

Scope:

The scope of the engagement was to perform quality review of audits performed or supervised by FLRA OIG for the period April 1, 2013 through March 31, 2014. The GAO's *Government Auditing Standards* require external peer review of federal audit organizations at least once every 3 years. Peer review generally covers 1 year. This peer review considered selected audits, compliance and performance review, program evaluation, inspections, and investigation conducted by the OIG during the period covered by the review.

The scope of the review covered three (3) engagements performed for the fiscal period ended:

1. Annual Financial Statements Audit,
2. Annual Evaluation of the Federal Information Security Management Act (FISMA), and
3. Government Charge Card (GCC)

The Financial Audit, FISMA and Government Charged Card Compliance Reviews were performed by an independent public accounting firm and supervised by FLRAOIG. The audit is FLRA's financial statements for the Fiscal Year ended September 30, 2013, and the reviews are FLRA's compliance with the Federal Information Security Management Act, and the Charge Card review in compliance with the Charge Card Act, and in consistent with existing guidance in OMB Circular A-123, Appendix B (Improving the Management of Government Charge Card Programs) and OMB Memorandum M-12-12 (Promoting Efficient spending to support Agency Operations). The Charge Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts for the fiscal year end under review.

Methodology

Samson T.A. and Associates (STA) reviewed the system of quality control of FLRA OIG in effect and reviewed the audit and compliance engagements performed during the period April 1, 2013 to March 31, 2014. The objective of the review was to determine whether FLRA OIG internal quality control system was adequate and in compliance with *Government Auditing Standards* (the Yellow Book) in order to provide reasonable assurance that applicable auditing standards, policies, and procedures are met.

In reviewing OIG's quality control and practices, we evaluated its policies and procedures for the audit operations and assessed the following functional elements of the system of quality control for the engagements reviewed:

- Leadership and Management;
- Independence, Legal, and Ethical Requirements;
- Initiation, Acceptance and Continuance of IPA Relationship and specific Engagements;
- Human Resource Management;
- Engagement Performance; and
- Monitoring Quality.

In examining the engagements supervised by OIG, STA visited FLRA OIG office and reviewed financial audit and compliance reviews of FISMA and GCC performed by an independent public accounting firm. We reviewed the reports, engagement performance and related work paper documentation. Specifically, we reviewed and evaluated the reports on financial and performance audits for compliance with GAS performance and reporting standard; reviewed independence, audit planning, supervision and review, professional judgment, audit team competence, audit evidence, engagement documentation, quality control process and monitoring procedures during the audits.

STA conducted the review of FLRA OIG's quality control and assurance in accordance with GAO *Government Auditing Standards* and the Guide for Conducting External Peer Reviews of the Audit Organizations of the Federal Office of Inspector General. We reviewed FLRA OIG's documented internal policies and procedures, performed tests of OIG's adherence to general standards, reviewed its oversight and monitoring responsibility of audit work performed by IPA firm. We reviewed the engagements and performed tests of OIG compliance with GAS and its established quality policies and procedures. We used the following documents and checklists to review and assess FLRA OIG system of quality control:

- Appendix A-Policies and Procedures;
- Appendix B-Checklist for Review of Adherence to General Standards; and
- Appendix F-Checklist for Review of Monitoring of Audit Work by an Independent Public Accounting Firm

To accomplish our objectives, we obtained an understanding of the OIG quality controls in place for performing its audits and program reviews. We also obtained an understanding of its monitoring procedures for ensuring quality work is performed by contractors and program consultants for audit and attestation engagements. We reviewed GAS, CIGIE guide, applicable OMB guidance, and established policies and procedures. Based on this review, we designed our review procedures to identify any non-compliance and/or non-conformed engagements. We performed detailed review of audit procedures and review program as identified in the audit and review engagements; identified control vulnerabilities and compliance issues with *Government Auditing Standards*.

In carrying out this methodology, we primarily applied review techniques, such as inquiry and observation, review of audit work papers and documentation to obtain sufficient, appropriate evidence to provide reasonable basis for our review, related to our audit objectives. We tested the accuracy and validity of audited financials, completeness of audit functions and operations.

Section 3: Quality Monitoring Procedures

3.1 Monitoring Procedures

The purpose of monitoring procedure and its compliance with quality control policies is to provide an evaluation of: (1) adherence to professional standards, 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. The monitoring quality program includes quality assessment, internal quality review and external peer review of audit functions and operations. FLRA OIG policies and procedures with respect to this element of the quality control provide the auditees and users of the OIG products with reasonable assurance that the OIG is complying with professional standards and has periodic assessment of audit quality and peer review of its audit functions and operations.

Monitoring quality encompasses an ongoing and periodic assessment of audits performed by OIG, supervision of audits and attestation engagements performed by contractors and outside consultants. The monitoring procedure is designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. Monitoring procedures will vary based on the audit organization's facts and circumstances. The audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures for GAS audits and attestation engagements. The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues that need improvement, along with recommendations for corrective action.

Section 4: Approach: Quality Assurance Review

STA review approach involves a five (5) step approach to reviewing FLRA OIG quality control system:

4.1 Obtain Audit Universe

STA requested from FLRA OIG, the population of audits and reviews performed by OIG and contractors during the April 1, 2013 through March 31, 2014. Total audit and attestation engagements performed was one (1) financial audit, two (2) compliance reviews of FISMA and Government Charge Card (GCC) for the period under review. The FLRA OIG supervised the three engagements at its Washington, DC Office.

No.	Project Number	Report Type	Report Date	Report Title
1.	Report No. AR-14-01	Financial Audit	December, 2013	FY 2013 Financial Statements Audit
2.	Report No. ER-14-02	FISMA Compliance Review	November, 2013	FY 2013 Compliance Review of Federal Information Security Management Act (FISMA)
3.	Report No. AR-14-03	GCC Compliance Review	February, 2014	FY 2013 Compliance Review of Government Charged Card (GCC)

4.2 Determine the Audit and Review Engagements (3 representative sample engagements)

To ensure coverage of review procedures and tests of the three engagements performed during the period under review, STA determined that testing should be applied to all functional quality areas, significant audit areas, audit functions and operations, and engagement activities to further reduce peer review risks.

4.3 Obtain Engagement Work Papers and Supporting Documentation

STA obtained and reviewed the following documentation for the financial and compliance engagements:

- Report for financial statements audit- Report Number AR-14-01
- Report for compliance review FISMA- Report Number ER-14-02
- Report for compliance review GCC- Report Number AR-14-03
- Prior period peer review reports and internal quality control review/monitoring
- Engagement work papers for financial audit,
- Engagement work papers for compliance reviews,
- Audit planning and evidence,
- Audit risk assessment for the entity
- Fraud risk inquiry and documentation
- Audit completion documentation and checklists

4.4 Conduct Review

In conducting our review, we applied risk-based approach to review quality control elements and engagements documentation and analysis. STA reviewed the three engagements and supporting documentation obtained from FLRA OIG to determine whether engagements were properly performed and professionally completed; whether applicable professional standards have been applied and complied with; and whether effective supervision and review were properly executed. Specifically, we performed the following procedures:

- performed risk assessment and identified the engagements to be reviewed,
- reviewed the OIG's quality control policies and procedures and the functional elements,
- reviewed reports in conformity with standards and guidelines established by CIGIE and GAS,
- reviewed, examined and compared information from the published reports to the copy on files and to the supporting work papers; reviewed planning, supervision, audit evidence, documentation, and reporting,
- tested compliance with FLRA OIG system of quality control and GAS,
- reviewed the elements of quality control system to ensure FLRA OIG complies with the established policies, procedures, practices and other applicable professional standards,
- verified that the FLRA OIG implements and maintains appropriate supervision and review over the audit and review performed by the IPA and other contractors or outside consultants,
- inspected the audit files, and verified that completion memo, forms, and audit checklists were completed and included in the audit documentation, properly supported, referenced and cross-referenced.

4.5 Result and Conclusion

During our review, we examined a total of three engagements performed by an IPA firm. The engagement performance was supervised by the IG. The result of our review did not disclose instance of non-compliance or non-conformity with professional standards that could result in a finding, deficiency or significant deficiency.

Based on the tests and assessment of audit functions and review operations at FLRA OIG, we concluded that the quality control policies and procedures at FLRA OIG is adequate and complied with during the period April 1, 2013 through March 31, 2014. We believe that the evidence obtained and procedures performed provide reasonable basis for our opinion and conclusion.