



**NATIONAL ENDOWMENT FOR THE ARTS  
OFFICE OF INSPECTOR GENERAL**

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**EXTERNAL QUALITY CONTROL REVIEW**

**OF THE**

**AUDIT OPERATIONS OF THE  
OFFICE OF INSPECTOR GENERAL  
FEDERAL LABOR RELATIONS AUTHORITY**

**WASHINGTON, D.C.**

**REPORT NO. QCR-05-01  
APRIL 18, 2005**

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# **INTRODUCTION**

## **BACKGROUND**

The Federal Labor Relations Authority (FLRA) is an independent agency responsible for directing the labor-management relations for 1.9 million non-postal and non-intelligence Federal employees worldwide, nearly 1.1 million of which are exclusively represented in approximately 2,200 bargaining units. The FLRA is to provide leadership in establishing policies and guidance related to Federal sector labor-management relations and resolving disputes arising among Federal agencies and unions representing Federal employees.

The FLRA Office of Inspector General (OIG) is responsible for directing and carrying out audits and investigations related to FLRA programs and operations. In addition, the OIG recommends policies that promote economic, efficient, and effective agency programs that help prevent fraud, waste and abuse. The OIG is responsible for keeping the Chair and the Congress fully informed of problems and deficiencies, as well as the necessity for corrective action. The Office of Inspector General is mandated by Public Law 100-504 and the Inspector General Act Amendments of 1998.

The Office of Inspector General is currently staffed with one full-time Inspector General and one full-time management analyst, who will be vacating that position on April 17, 2005. Previous budget constraints and prior FLRA strategic planning resulted in one person (the Inspector General) having oversight responsibility for all of FLRA's programs, operations, and use of resources. The FLRA currently employs about 215 employees.

## **OBJECTIVE AND SCOPE**

The objective of the review was to determine whether the FLRA Office of Inspector General followed applicable Government Auditing Standards in the conduct of its audit work. Our review was conducted in conformity with the standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE).

The review was conducted in March 2005 and included the period October 1, 2003 through September 30, 2004. Our review also included the FLRA fiscal year 2004 financial statement audit performed by a contracted auditor and issued in November 2004.

## PRIOR QUALITY CONTROL REVIEW

The National Endowment for the Arts OIG previously reviewed the FLRA OIG in April 2002. The review found that the FLRA Office of Inspector General was generally in compliance with the Government Auditing Standards, except for staffing and budgetary limitations that impact the independence standard.

## RESULTS OF REVIEW

Our review found that the FLRA Office of Inspector General was generally in compliance with the Government Auditing Standards, except for staffing and budgetary limitations that continue to impair OIG operations. Because of the budgetary restrictions, the Inspector General was unable to meet the continuing education requirements. Details of these limitations and other items related to our review are presented below.

## STAFFING AND BUDGETARY RESTRICTIONS

The *Government Auditing Standards* (2003 revision), paragraph 3.03, states that the general standard related to independence is:

**In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.**

It is our opinion that the staffing and budgetary limitations placed on the FLRA Office of Inspector General represent an impairment to independence that has significantly limited the ability of this OIG to carry out its statutory responsibility of conducting audits related to the programs and operations of the FLRA. Paragraph 3.19 of the *Government Auditing Standards* (2003 revision), states in part:

**Factors external to the audit organization may restrict the work or interfere with the auditors' ability to form independent and objective opinions 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. For example, under the following conditions, auditors may not have complete freedom to make an independent and objective judgment and an audit may be adversely affected:**

- a. external interference or influence that could improperly or imprudently limit or modify the scope of an audit or threaten to do so, including pressure to reduce inappropriately the extent of work performed in order to reduce costs or fees; . . .
- d. interference external to the audit organization in the assignment, appointment, and promotion of audit personnel;
- e. restriction on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities; . . .

FLRA continues to deny requests by the Inspector General for an audit position. It has also slashed contract funding from \$155,500 in fiscal year 2004 to \$76,500 in fiscal year 2005. In addition, those \$76,500 in contract funds are restricted and can only be used for the FLRA's annual financial statement audit. These actions by FLRA severely limit the OIG from properly performing its functions mandated by the Inspector General Act and other Acts of Congress, including the annual Federal Information Security Management Act (FISMA) review. In addition, FLRA has not budgeted any travel funds for OIG. This is a severe impediment to OIG operations since FLRA has six regional offices and two satellite offices outside of Washington, DC. This also restricts OIG in its ability to conduct investigative activities as well.

## CONTINUING EDUCATION

The FLRA Inspector General did not meet the continuing education requirements. Paragraph 3.45 of the Government Auditing Standards states:

**Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, need to maintain their professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements. At least 24 of the 80 hours of CPE should be in the subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 should be completed in any 1 year of the 2-year period.**

The primary reason for the Inspector General not obtaining the required number of hours was due to the budget restrictions placed on the Office of Inspector General by FLRA. Only \$500 was budgeted for annual training for the Inspector General in fiscal years 2004 and 2005. This also represents an impairment on the OIG as described in the prior section "Staffing and Budgetary Restrictions."

## AUDIT MANUAL

The FLRA OIG Audit Manual was last updated in March 1993. This has not been a priority since there has been no audit staff since 1998. Also, the FLRA Audit Policy and Procedures (FLRA 2920.1, dated January 19, 1999) state:

**It is the policy of the FLRA to conduct audits according to Government Auditing Standards promulgated by the Comptroller General of the United States to help provide accountability and assist Federal officials and employees in carrying out their responsibilities. Government Auditing Standards not only include a codification of current audit practices, but also concepts and audit areas that are still evolving and vital to achieving accountability objectives sought in auditing government programs and services.**

Although the audit manual has not been recently updated and since the *Government Auditing Standards* is the primary publication followed by the FLRA OIG for the

performance of its audits, the audit manual still provides a valuable supplemental resource for use in conducting such reviews. However, the Inspector General has in recent years prepared and documented various policies and procedures for the OIG, including those for audits, audit followup, investigations, the FLRA Hotline, as well as instructions for procuring auditing services from independent public contractors.

## **MONITORING OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Inspector General's monitoring of contracted independent public accountants (IPAs) was adequate. Since the FLRA OIG has no audit staff and IPAs are the primary means used for conducting audits, the Inspector General takes an active role during the entire IPA audit process. While no formal checklist is used, the Inspector General reviews all working papers and monitors the IPA on a continuing basis. This process is more intensive than that which would be taken using a standard checklist.

## **AUDIT FOLLOWUP**

During the most recent semiannual reporting period ending September 30, 2004, it was reported that there were 83 recommendations that were over six months old and 14 new recommendations. Only 1 of these 97 outstanding audit recommendations was cleared during the last semiannual period. Some of these outstanding recommendations relate to material weaknesses reported in FLRA's annual computer security review. In addition to the formal issuance of a report requiring a response, the Inspector General periodically sends followup requests to FLRA management officials for information to resolve outstanding recommendations, but usually does not receive any responses to those requests.

OMB Circular A-50 (Audit Followup) requires that "agencies shall assign a high priority to the resolution of audit recommendations and to corrective action." It also requires "prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible."

## **RECOMMENDATION**

The impairment to independence because of staffing and budget limitations was reported in the prior quality control review conducted in 2002. Because no action has been taken and FLRA management has not been responsive to the needs of the OIG by restricting the OIG's ability to perform its mandated functions, we recommend that the Inspector General report the impairment to (1) appropriate subcommittees of the Congress, (2) the Government Accountability Office, and (3) the Office of Management and Budget.