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QCR-02-01

Ms. Francine C. Eichler Inspector General Federal Labor Relations Authority 607 14th Street, NW Suite 240 Washington, DC 20424

April 3, 2002

Subject: External Quality Control Review of the Audit Operations of the Office of Inspector General, Federal Labor Relations Authority

Dear Ms. Eichler:

The National Endowment for the Arts, Office of Inspector General, conducted an external quality control review of the Federal Labor Relations Authority (FLRA), Office of Inspector General. Our review was conducted in conformity with the standards and guidelines established by the President's Council on Integrity and Efficiency.

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 impact the independence standard. We made one recommendation related to those limitations and have included your comments.

Attached is a copy of the subject report. If you have any questions, please contact me at (202) 682-5483, by fax at (202) 684-5649, or by e-mail at shawd@arts.endow.gov.

We appreciate the cooperation of you and your staff during the performance of this review.

Sincerely,

Daniel L. Shaw Inspector General

Enclosure

External Quality Control Review of the Audit Operations of the Office of Inspector General, Federal Labor Relations Authority Performed by the Office of Inspector General, National Endowment for the Arts

April 3, 2002

Background

The Federal Labor Relations Authority (FLRA) is an independent agency responsible for directing the labor-management relations for 1.9 million non-postal 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 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 part-time student assistant. 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 2002 and included the period October 1, 2000 through September 30, 2001. Our review also included the "Audit of FLRA Computer Information Security" completed by a contracted auditor in January 2001. In addition, our effort was expanded to include a review of a contracted financial audit of the "Federal Labor Relations Authority FY 98 Financial Statements and Central Services Fund" that was issued in September 1999.

Prior Quality Control Review

The FLRA Office of Inspector General was previously reviewed by the Federal Trade Commission Office of Inspector General in the Fall of 1998. The report cited management actions that impacted on the independence of the OIG. The observations included (1) dual reporting requirements by the Acting Inspector General, (2) staffing and budgetary restrictions, (3) inadequate procurement support, and (4) space management control.

Since the appointment of the current Inspector General in February 1998, the only remaining issue is that regarding staffing and budgetary restrictions, which may impair the independence of the Inspector General.

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 impact the independence standard. Details of this exception and other items related to our review are presented below.

Staffing and Budgetary Restrictions

It is our opinion that the staffing and budgetary limitations placed on the FLRA Office of Inspector General represent an impairment that has adversely affected the ability of this OIG to carry out its statutory responsibility of conducting audits related to the programs and operations of the FLRA. As noted in the *Government Auditing Standards* (1994 revision), *Amendment No. 3, Independence*, the second general standard 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.

One of the conditions noted in the Government Auditing Standards, Amendment No. 3, Independence, under which "an auditor may not have complete freedom to make an independent and objective judgment" and under which "an audit may be adversely affected" is:

Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.

The FLRA's budget for its Office of Inspector General declined from \$314,000 in fiscal year 1996 to \$169,000 in fiscal year 2001. The staff was reduced from four full-time equivalents in 1996 to one (the Inspector General) in 1999, where it currently remains (except for a part-time student staff assistant). During the period from fiscal year 1996 to fiscal year 2001, FLRA's overall budget increased from \$21.1 million to \$25 million. That represents an 18.4 percent overall increase for FLRA, whereas the OIG budget was cut over 46 percent during the same six-year period.

Since the Inspector General does not have audit staff and contract funding is limited, the OIG can only contract for one audit per year. Also, there are many mandated requirements that restrict the effort that the Inspector General, herself, can direct toward conducting such reviews.

The Inspector General has repeatedly requested additional funds during the budget process to increase OIG staff. The current level of effort, which includes the one contracted audit per year, is inadequate given the audit universe of the FLRA. During fiscal year 2000, contract funds were used primarily for services related to the Computer Information Security Audit, the results of which were used to satisfy the requirements mandated by the Government Information Security Reform Act. As such, there were no funds to conduct discretionary audits of other FLRA activities.

The current FLRA Chairman supports the oversight process of the OIG and its contributions to the FLRA and has allocated funding to make the staff assistant a full-time position. Based on the current OIG workload and recent additional congressional requirements, it is our opinion that another full-time audit position is justified.

Recommendation. We recommend that the Inspector General continue to pursue the additional staff and the funding necessary for the Office of Inspector General to effectively carry out its statutory responsibility of conducting audits related to the programs and operations of the FLRA.

Response. The Inspector General indicated concurrence with the recommendation and that she would continue to pursue the additional staff and the funding required to operate effectively. This is evidenced by her repeated requests for additional staff and funding during the annual budget process. As noted above, the current FLRA Chairman supports the oversight process of the OIG and has allocated funding to make the staff assistant a full-time position.

Audit Manual

The FLRA OIG Audit Manual was last updated in March 1993. This has not been a priority since there has been no staff other than the Inspector General 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.

Monitoring of Independent Public Accountants

The Inspector General's monitoring of contracted independent public accountants (IPAs) was adequate. Since the FLRA OIG has no 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. The Inspector General also includes comments within the final report and in one audit that we reviewed, the Inspector General added two additional recommendations. This process is more intensive than that which would be taken using a standard checklist.

Continuing Education

The Inspector General, the only full-time employee of the OIG, is in compliance with the requirement that each auditor complete at least 80 hours of continuing education and training that contributes to the auditor's professional proficiency. At least 20 hours should be completed in each year of the two-year period. Our review indicated that the Inspector General exceeded those requirements by completing 32 hours of continuing education in calendar year 2000 and 64 hours in calendar year 2001.