

EXTERNAL QUALITY CONTROL REVIEW OF THE
AUDIT OPERATIONS OF THE OFFICE OF INSPECTOR GENERAL
FEDERAL LABOR RELATIONS AUTHORITY
WASHINGTON, DC

REPORT NUMBER: OIG Peer Review 01-08

DATE: September 16, 2008

ISSUED BY: U.S. International Trade Commission Office of Inspector General



UNITED STATES INTERNATIONAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20436

September 16, 2008

Ms. Francine C. Eichler
Inspector General
Federal Labor Relations Authority

Dear Ms. Eichler:

We have reviewed the system of quality control for the audit function of the Federal Labor Relations Authority (FLRA) Office of Inspector General (OIG) in effect for the year ended March 31, 2008. A system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of the FLRA OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

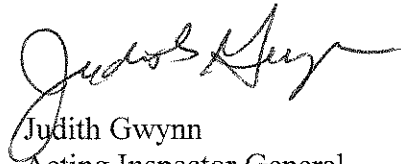
Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the FLRA OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on the sole audit conducted during the period reviewed. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Committee.¹ In addition, the ECIE organizations should provide a copy of the report to the Vice-Chair of the ECIE. It is recommended that, upon request, the peer review report be made available to the Government Accountability Office and the public in a timely manner.

In addition, we will send a copy of this letter to Mr. Edward Kelley, Inspector General at the Federal Housing Finance Board, to inform him that the audit peer review has been completed.

We appreciate your assistance and cooperation during the review.

Sincerely,



Judith Gwynn
Acting Inspector General
Office of Inspector General
U.S. International Trade Commission
500 E Street SW, Room 515
Washington, DC 20436

Encl.

cc: Edward Kelley (no enclosures)

¹ The Vice Chair of the PCIE and the ECIE will prepare schedules of completed peer reviews, and advise the appropriate congressional committees that the opinion report is available on request from the reviewed OIGs.



UNITED STATES INTERNATIONAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20436

September 16, 2008

IG-FF-013

Ms. Francine C. Eichler
Inspector General
Federal Labor Relations Authority
1400 K Street NW, Room 250
Washington, DC 20424

Subject: External Audit Quality Control Review Final Report

Dear Ms. Eichler,

The enclosed report presents the results of our external quality control review of the audit operations of the Office of Inspector General at the Federal Labor Relations Authority. Please provide your comments as the responsible official in Attachment 1. Please send us a signed copy of Attachment 1 for our records.

In addition, please distribute the report with Attachment 1, according to instructions in the PCIE/ECIE External Peer Review Guide (on the internet at: <http://www.ignet.gov/pande/audit/add205.doc>):

40. The reviewed OIG must provide copies of the final review report to the head of its agency, the Chair and Vice Chair of the PCIE, and the Chair of the PCIE's Audit

BACKGROUND

The Federal Labor Relations Authority (FLRA) is an independent administrative federal agency created by Title VII of the Civil Service Reform Act of 1978 (also known as the *Federal Service Labor-Management Relations Statute*) (the Statute). (P.L. 95-454, 5 U.S.C. §7101 et seq.) The Statute allows certain non-postal federal employees to organize, bargain collectively, and to participate through labor organizations of their choice in decisions affecting their working lives.

The Statute defines and lists the rights of employees, labor organizations, and agencies so as to reflect the public interest demand for the highest standards of employee performance and the efficient accomplishment of Government operations. (5 U.S.C. §7101(a)(2)) Specifically, the Statute requires that its provisions "should be interpreted in a manner consistent with the requirement of an effective and efficient Government." (5 U.S.C. §7101(b))

The business of the FLRA, and thus the FLRA mission, is to carry out five (5) primary statutory responsibilities as efficiently as possible and in a manner that gives full effect to the rights afforded employees and agencies under the Statute. Those five primary responsibilities are:

1. Resolving complaints of unfair labor practices
2. Determining the appropriateness of units for labor organization representation
3. Adjudicating exceptions to arbitrator's awards
4. Adjudicating legal issues relating to duty to bargain/negotiability
5. Resolving impasses during negotiations

The FLRA OIG is responsible for directing and carrying out audits, investigations, and other oversight activities related to FLRA programs and operations. In addition, the OIG proposes policies, findings, and recommendations that promote economic, efficient, and effective agency programs that help prevent fraud, waste, abuse, and mismanagement. The OIG is responsible for keeping the Chairman and the Congress fully informed of problems and deficiencies, as well as the necessity for corrective action. The OIG is mandated by the Inspector General Act, as amended, (5 U.S.C. Appendix 3). The FLRA OIG is a member of the Executive Council on Integrity and Efficiency (ECIE).

The FLRA OIG is currently staffed with one full-time Inspector General and one full-time administrative assistant. The Inspector General has oversight responsibility for all of FLRA's programs, operations, and use of resources. Currently, the FLRA employs about 145 employees and had an appropriation of \$25.3 million in FY 2007.

OBJECTIVE

Our objective was to determine whether the internal quality control system was adequate as designed and that the FLRA OIG complied with that system to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our review was conducted in conformity with the standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE).

SCOPE

The review was conducted in May 2008 and covered the period April 1, 2007 through March 31, 2008. Our review included the FLRA fiscal year 2007 financial statements audit which was completed in February 2008. An Independent Public Accounting (IPA) firm performed the audit on behalf of the OIG. The financial statements audit was the only audit conducted during the review period.

PRIOR QUALITY CONTROL REVIEW

The National Endowments for the Arts OIG previously reviewed the FLRA OIG in April 2002 and 2005. Those reviews found that the FLRA OIG was generally in compliance with GAGAS, except for staffing and budgetary limitations that impacted the independence standard.

RESULTS OF REVIEW

Our review found that the FLRA OIG was generally in compliance with the GAGAS. However, we found serious impairments to the independence of the OIG caused by: lack of cooperation from agency management, including denial of access to data and personnel, failure to respond to OIG audit report findings and recommendations, and failure by the FLRA Chairman to forward the OIG semiannual reports to Congress as required by law; limits on staff and funding that prevented the OIG from conducting a statutorily required audit, and obtaining a level of continuing education as required by the Inspector General Act and Government Auditing Standards; and the inability of the OIG to independently post OIG documents on a public website as required by law.

It is our opinion that the lack of cooperation from management, resource limitations, and lack of response to OIG requests, has created serious impairments to the independence of the FLRA OIG. These impairments have prevented the OIG from carrying out some of its statutory responsibilities.

Federal Information Security Evaluation Not Performed

The FLRA Inspector General did not conduct the statutorily required Federal Information Security Management Act ("FISMA", 44 U.S.C. § 3541, et seq.) evaluation in 2007 due to lack of funding. The OIG made several requests for the necessary funds to hire contract auditors to conduct this evaluation in both 2007 and 2006. FLRA management did not respond to the requests for funds.

Despite the lack of management support and funding, in 2006 and 2007 the OIG took the initiative to conduct a survey of FLRA information technology security practices in an effort to address some of the issues that would have been covered under a comprehensive FISMA evaluation. However, the survey was limited in scope and did not substitute for a FISMA compliant evaluation.

Financial Statement Audit Not Completed by Deadline

The annual financial statement audit for Fiscal Year 2007 was completed several months after the statutory due date of November 15, 2007 because FLRA management delayed in providing the OIG with necessary financial information and documents, as well as access to knowledgeable managers for interviews. The 2007 Performance and Accountability Report, containing the results of the audit, was not issued to OMB until April 2008.

Management Did Not Respond to OIG Audits

FLRA management did not respond to 175 OIG audit recommendations for the period 2002 through 2007. This prevented the OIG from including management response and corrective actions in the final audit reports, and tracking the actions to closure. When the

OIG requested follow up information on these recommendations in response to a January 2008 Congressional inquiry, FLRA management did provide some information.

FLRA Chairman Did Not Issue OIG Semiannual Reports as Required By Law

The Chairman of the FLRA did not timely submit to Congress the OIG semiannual reports for the periods ending March 31, 2006 and September 30, 2006. The IG Act requires the head of each agency to submit the OIG semiannual report to Congress within 30 days of receipt. Both reports were submitted to Congress in May 2007.

The FLRA OIG Did Not Meet Statutory Education Requirements

The FLRA Inspector General was unable meet statutorily required continuing professional education requirements for FY 2007, due to a lack of funds. The OIG requested sufficient funding to procure continuing education classes, however, the requests were denied. (In mid-2008, the FLRA Inspector General received approval for additional training, in addition to funds for the annual PCIE/ECIE Inspector General conference.)

No Access for Posting OIG Documents on the FLRA Website

The FLRA OIG has not been granted access to post public OIG documents on the FLRA website, as required by the Consolidated Appropriations Act, 2008 (P.L. 110-161). FLRA management does not post OIG documents in a timely manner when requested.

FINDINGS

Federal Information Security Act Evaluation Was Not Conducted In FY 2006 or FY 2007

The Federal Information Security Act (FISMA) (44 USC section 3541, et seq.) states:

(a)(1) Each year each agency shall have performed an independent evaluation of the information security program and practices of that agency to determine the effectiveness of such program and practices.

(b)(1)...the annual evaluation required by this section shall be performed by the Inspector General or by an independent external auditor as determined by the Inspector General of the agency.

The FLRA Inspector General did not conduct the statutorily required Federal Information Security Management Act (FISMA) evaluation in 2007 due to lack of funding. The OIG did submit several requests for funds to hire contract auditors to conduct this evaluation in both 2007 and 2006.

The FLRA OIG submitted three separate requests for resources to hire a qualified audit firm to conduct this required information technology (IT) evaluation. The Inspector General submitted funding requests to the FLRA Chairman, on August 8, 2006, January 30, 2007, and February 6, 2008. The Chairman did not respond to any of these requests.

However, in 2006 and 2007 the Inspector General took the initiative to conduct a customer survey of information technology security practices at FLRA in an effort to address some of the issues covered under a comprehensive FISMA evaluation.

The lack of management cooperation is an external impairment to independence under Government Auditing Standards 3.10 f. because it places “restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities...”

Financial Statement Audit Was Completed Late

According to the “Accountability of Tax Dollars Act of 2002” (P.L. 107-289), the FLRA is required to prepare audited financial statements each fiscal year. The Office of Management and Budget (OMB) directed agencies to combine annual audited financial statements and annual Government Performance and Results reports into one report, the Performance and Accountability Report (PAR). OMB establishes the annual due date for the PAR in OMB circular A-136 Financial Reporting Requirements (06/29/2007). For the FY 2007 PAR, the due date was November 15, 2007.

The FLRA Inspector General hired independent professional accountants to audit the agency's financial statements and prepare a written report in accordance with OMB requirements. However, the FY 2007 audit was not completed until February 8, 2008 due to the lack of cooperation from FLRA management in access to information and knowledgeable agency officials. The 2007 PAR was issued to OMB on April 4, 2008.

For the FY 2006 financial statements, the independent professional accountants were unable to render an opinion because of management's lack of assistance during the audit.

Management's lack of assistance for the financial statement audit was an external impairment to independence under Government Auditing Standards 3.10, which states:

“Audit organizations must be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors' ability to form independent and objective opinions, findings, 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, thereby adversely affecting the audit:

d. externally imposed restriction on access to records, government officials, or other individuals needed to conduct the audit.”

Management Did Not Respond to OIG Audits

OMB Circular A-50 “Audit Followup” (dated 09/29/1982), 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.”

In the 2005 peer review, it was noted that the Inspector General periodically sent follow-up requests to FLRA management officials to resolve outstanding recommendations, but usually did not receive any responses to those requests.

For the period 2002 through 2007, FLRA management did not respond to 175 OIG audit findings and recommendations. When the OIG notified the Chairman of a December 2007 Congressional request for a list of outstanding recommendations, the FLRA Chairman provided a limited response on January 2, 2008, stating that many of the

outstanding recommendations should be deleted because they were obsolete. The Inspector General reviewed the Chairman's response and all of the recommendations. As a result, the Inspector General closed 46 recommendations. However, additional management follow up is needed for the remaining 129 outstanding recommendations.

Semiannual Reports Submitted Late to Congress

According to the Inspector General Act, as amended at 5 USC appendix 3, section 5 (b):

“Semiannual reports of each Inspector General shall be furnished to the head of the establishment involved not later than April 30 and October 31 of each year and shall be transmitted by such head to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the report, together with a report by the head of the establishment...”

FLRA Management failed to submit the OIG's two semiannual reports for FY 2006 to Congress until May 2007. Both of the OIG's FY 2006 semiannual reports should have been sent to Congress within 30 days after receipt by management.

The lack of management cooperation is an organizational impairment to independence under Government Auditing Standards 3.15 e., since it is contrary to “... statutory protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis.”

Continuing Professional Education

According to Government Auditing Standard 3.46 Continuing Professional Education:

Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2- year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

The FLRA Inspector General is required to meet the 80 hours continuing education requirements over a two year period, which includes 24 hours of audit training. However, due to funding limitations, the IG attended about 20 hours of continuing education in FY 2007. Subsequent to the period being reviewed in 2008, the FLRA Inspector General received approval and funding for additional training.

Lack of Access to Post Public Documents on Website

The Consolidated Appropriations Act, 2008 (P.L. 110-161) Sec. 746 states:

- (a) Each executive department and agency shall establish and maintain on the homepage of its website, an obvious, direct link to the website of its respective Inspector General.
- (b) Each Office of Inspector General shall:
 - (1) post on its website any public report or audit or portion of any report or audit issued within one day of its release;
 - (2) provide a service on its website to allow an individual to request automatic receipt of information relating to any public report or audit or portion of that report or audit and which permits electronic transmittal of the information, or notice of the availability of the information without further request; and
 - (3) establish and maintain a direct link on its website for individuals to anonymously report waste, fraud and abuse.

OIG does not have independent access to post documents on the FLRA website, and agency management is not posting the documents in a timely manner for the OIG when requested. For example, the last OIG semiannual report listed is for the period October 1, 2006 through March 31, 2007. The Inspector General contacted management about obtaining independent access to post documents, but this has not yet been implemented.

OTHER AREAS OF REVIEW

Monitoring of Independent Public Accountants

The Inspector General's monitoring of contracted Independent Accountants (IPA) 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. As the contracting officer (CO) and contracting officer's technical representative (COTR), she directs and oversees the IPAs. While no formal checklist is used, the Inspector General reviews all working papers and monitors the IPA on a continuing basis.

Memorandum of Understanding

On April 12, 2007, the Inspector General submitted a proposed memorandum of understanding regarding the OIG's administrative authority to the Chairman. The Chairman has not responded to the Inspector General.

Audit Manual

FLRA OIG Oversight Activity Policy and Procedure Instruction (FLRA 2920.1, dated 2006) establishes policy and procedures for conducting internal oversight activities of FLRA programs and functions. The Instruction states:

F. 1... It is the policy of the FLRA to conduct oversight activities 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 oversight activities that are still evolving and vital to achieving accountability objectives sought in auditing researching and evaluating Government programs and services...

FLRA OIG Inspector General Audit Contract Services Instruction (FLRA 2910, dated 2006), sets forth policy, procedures, and responsibilities related to contract audit services. Another FLRA OIG Instruction on Oversight Activities Follow Up (FLRA 2930.1, dated 2006) established policy and procedures for audit, internal reviews and other oversight activity follow up.

The FLRA OIG Audit Manual was prepared in the 1990's. The Inspector General made some handwritten updates to the Audit Manual in 2003. The Audit Manual has not been a priority since there has been no audit staff since 1998. In effect, the Audit Manual serves as a supplemental resource to the three FLRA OIGs Instructions cited above. Pursuant to the Instructions, FLRA OIG follows the Government Auditing Standards for oversight of audits, audit contract services, and follow up activities.

CONCLUSION

The 2005 peer review reported impairments to independence due to staffing and budget limitations. FLRA management has not taken action to address staffing or budget limitations. Since that time, management's lack of cooperation with the mission of the OIG has become an additional impairment to independence. The impairments to independence have restricted the FLRA OIG's ability to perform its mandated functions.

RECOMMENDATIONS

- 1) We recommend that the FLRA Inspector General provide this report to FLRA management in order to bring attention to the impairments to independence that exist. The Inspector General should continue to work with FLRA management to address these impairments.

- 2) We recommend the OIG use this report to seek assistance from other oversight bodies, if necessary, for help in addressing the existing impairments to independence. We recommend seeking assistance from the appropriate subcommittees of the Congress, the Office of Management and Budget, and the PCIE/ECIE executive committees.