

**GAO**

United States General Accounting Office / 131382

Report to the Inspector General  
Environmental Protection Agency

September 1986

**INSPECTORS  
GENERAL**

**Compliance With  
Professional Standards  
by the EPA Inspector  
General**



131382

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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

B-222715

September 30, 1986

The Honorable John C. Martin  
Inspector General  
Environmental Protection Agency

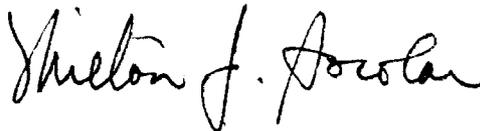
Dear Mr. Martin:

This report summarizes the results of our review of the Office of Inspector General's compliance with professional standards. This is the third in a series of reviews planned for federal inspectors general and internal audit organizations.

Your office's efforts to work closely with EPA management to establish an independent and credible organization have resulted in significant changes and improvements during the past 3 years. This report contains recommendations to you in chapters 2 and 3 which will further improve your operations. Please advise us of the actions you take on these recommendations.

We are sending copies of the report to the Director, Office of Management and Budget, and to the Administrator, Environmental Protection Agency. We are also sending copies to various congressional committees and to other interested parties.

Sincerely yours,

*for* 

Charles A. Bowsler  
Comptroller General  
of the United States

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# Executive Summary

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## Purpose

Statutory offices of inspectors general and other federal internal audit organizations play an important role in preventing and detecting fraud and abuse, and in promoting economy, efficiency, and effectiveness in federal programs and operations. Because of the importance attached to their work, GAO initiated a series of “quality assessment reviews” of offices of inspectors general and other federal internal audit organizations in 1984. This report on the Environmental Protection Agency (EPA) Office of Inspector General (OIG) is the third in GAO’s series of quality assessment reviews.

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## Background

The EPA Office of Inspector General conducts two types of assignments—audits and investigations. GAO’s specific review objectives were to determine whether the OIG

- audit function satisfactorily complied with the Comptroller General’s Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, certain standards contained in the President’s Council on Integrity and Efficiency (PCIE) Interim Quality Standards for Federal Offices of Inspector General, and the Office of Management and Budget circular A-73, “Audit of Federal Operations and Programs”; and
- investigation function satisfactorily complied with the PCIE Interim Quality Standards for Federal Offices of Inspector General and Interim Professional Standards for Investigations.

Professional standards are not absolute measures for quality which must be rigidly applied in all instances, but rather, they are guiding principles for quality to be applied with professional judgment in individual circumstances. GAO uses the term “satisfactory compliance” with a professional standard to mean that an organization adhered to a professional standard in a substantial majority of situations. However, GAO also considers the “nature” and “significance” of instances of noncompliance with the professional standard tested in determining satisfactory compliance.

During the review, GAO met periodically with the inspector general (IG) and his staff to discuss assessment results, as well as GAO’s observations on other management practices which the OIG should consider. In addition, GAO provided the IG and his staff with the detailed findings on each audit and investigation reviewed.

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## Results in Brief

The OIG satisfactorily complied with 20 of the 23 audit and investigation standards GAO used in assessing the OIG's operations. However, corrective actions are needed to bring the OIG into satisfactory compliance with certain aspects of 3 standards in the areas of evaluating and reporting on internal control systems, gathering evidence to support audit report statements, and developing an annual investigation plan.

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## Principal Findings

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### Assessment of the Audit Function

GAO grouped the audit standards into 12 categories in order to assess the OIG's audit function. GAO evaluated quality-control systems, reviewed 20 audit assignments, and tested other OIG procedures designed to ensure quality in audit work.

GAO found that the OIG audit function satisfactorily complied with the professional standards in the areas of (1) staff qualifications, (2) independence, (3) annual audit planning, (4) individual job planning, (5) supervision, (6) legal and regulatory requirements, (7) fraud, abuse, and illegal acts, (8) reporting, (9) audit follow-up, and (10) quality assurance.

However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the audit standards in the areas of internal controls and evidence. For example, GAO found some cases in which auditors did not evaluate and report on internal control systems or gather sufficient evidence to support audit report statements.

While the OIG did not satisfactorily comply with audit standards in some instances, GAO did not identify any cases where there was cause to question the OIG's findings in the audits reviewed. (See chapter 2.)

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### Assessment of the Investigation Function

The Inspector General Act authorizes IGS to conduct investigations relating to programs and operations. GAO grouped the investigation standards into 11 categories in order to assess the OIG's investigation function. GAO evaluated quality-control systems, reviewed 20 investigation cases, and tested other OIG procedures designed to ensure quality in investigative work.

GAO found that the OIG investigation function satisfactorily complied with the professional standards in the areas of (1) staff qualifications, (2) independence, (3) screening allegations, (4) coordination, (5) directing and controlling, (6) due professional care, (7) preserving confidentiality, (8) reporting, (9) information management, and (10) quality assurance.

However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the investigation standard for planning. GAO found that the OIG did not prepare an annual organization plan.

While the OIG did not satisfactorily comply with the investigation standard for planning in some instances, GAO did not identify any cases where there was cause to question the OIG's findings in the investigations reviewed. (See chapter 3.)

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## Recommendations

GAO recommends a number of corrective actions that the IG can take to bring the OIG into satisfactory compliance with professional standards, including clearer policies and procedures on the evaluating and reporting on internal control systems and better annual investigation planning. GAO also offers other recommendations to improve OIG operations, such as expanding its financial audit program. (See chapters 2 and 3.)

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## Agency Comments

The EPA inspector general agreed with most of GAO's findings and recommendations. He stated that the results of GAO's audit work and report will help the OIG achieve full compliance with the standards and a greater degree of effectiveness. According to the IG, in most cases, corrective actions are either presently underway in areas requiring improvements or have been completed. However, the IG disagrees with GAO's recommendation that the OIG expand its financial audit program. GAO continues to believe that expanding the financial audit program to include audits that express an opinion on the accuracy and adequacy of EPA's financial reports will increase the discipline needed for sound financial management, enhance oversight, and help ensure financial integrity. Appendix III contains the IG's comments and GAO's response to each comment.



# Contents

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<b>Executive Summary</b>		2
<hr/>		
<b>Chapter 1</b>		8
<b>Introduction</b>	Objectives, Scope, and Methodology	8
	Mission, Organization, and Accomplishments of the EPA Inspector General	10
<hr/>		
<b>Chapter 2</b>		18
<b>Assessment of the Audit Function</b>	Compliance With Standards	20
	Conclusions and Recommendations	39
	Agency Comments and Our Evaluation	40
<hr/>		
<b>Chapter 3</b>		42
<b>Assessment of the Investigation Function</b>	Compliance With Standards	43
	Conclusions and Recommendations	58
	Agency Comments and Our Evaluation	58
<hr/>		
<b>Appendixes</b>	Appendix I: Scope and Methodology	60
	Appendix II: OIG Office of Investigations Fiscal Year 1985 Goals	66
	Appendix III: Comments From the Environmental Protection Agency	69
<hr/>		
<b>Tables</b>	Table 1.1: OIG Staff Members as of September 30, 1985	12
	Table 1.2: OIG Budget, Fiscal Year 1985	13
	Table 1.3: Summary of Significant OIG Activities, Fiscal Year 1985	17
	Table 2.1: Summary of OIG Compliance With Audit Standards	19
	Table 3.1: Summary of OIG Compliance With Investigation Standards	43
	Table I.1: Standards Used for Assessing OIG Audit Function	61
	Table I.2: Standards Used for Assessing OIG Investigation Function	62

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**Figure**

**Figure 1.1: U.S. Environmental Protection Agency, Office of Inspector General Organization Chart**

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**Abbreviations**

CPA	Certified Public Accountant
EPA	Environmental Protection Agency
GAO	General Accounting Office
IG	inspector general
MAR	management assessment review
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency

# Introduction

The Congress, federal officials, and private citizens want and need to know not only whether federal funds are handled properly and in compliance with laws and regulations, but also whether federal agencies are economically and efficiently achieving the purposes for which programs were authorized and funded. They depend to a great extent on GAO, the offices of inspectors general (OIGs), and other federal internal audit organizations to answer these questions. The reliability of these answers depends on the quality of work these organizations perform.

We believe the quality of the work of the OIGs and other federal internal audit organizations is a matter of great importance. In 1984, we initiated a series of "quality assessment reviews" of these organizations' work. The first two reviews were conducted at the Department of Commerce OIG and the Department of Agriculture OIG.<sup>1</sup> Our reviews are designed to assess whether an OIG or other federal internal audit organization is satisfactorily complying with generally accepted government auditing standards and other professional standards. This involves evaluating the organization's quality-control systems; reviewing and testing a sample of recently completed audit and investigation reports and work-paper files; and reviewing, testing, and evaluating other available evidence. Our reviews are compliance evaluations. They do not evaluate the economy, efficiency, and effectiveness of OIGs' or federal internal audit organizations' activities. Also, we do not redo any of the reviewed audits or investigations.

## Objectives, Scope, and Methodology

This report on the Environmental Protection Agency (EPA) Office of Inspector General continues our series of quality assessment reviews of the OIGs and other federal internal audit organizations. We chose the EPA Office of Inspector General because we wanted to evaluate its operations since our last review.<sup>2</sup> Further, the inspector general (IG) requested that we conduct a quality assessment review of his office. Our review objectives were to determine whether the EPA Office of Inspector General (1) audit function was satisfactorily complying with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, certain standards contained in the President's Council on Integrity and Efficiency (PCIE) Interim Quality

<sup>1</sup>Compliance With Professional Standards by the Commerce Inspector General (GAO/AFMD-85-57, August 12, 1985) and Inspectors General: Compliance With Professional Standards by the Department of Agriculture Inspector General (GAO/AFMD-86-41, September 30, 1986).

<sup>2</sup>Improvements Needed in EPA's Inspector General Operations (GAO/AFMD-84-13, October 21, 1983).

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Standards for Federal Offices of Inspector General, and Office of Management and Budget (OMB) circular A-73, "Audit of Federal Operations and Programs"; and (2) investigation function was satisfactorily complying with the PCIE Interim Quality Standards for Federal Offices of Inspector General and Interim Professional Standards for Investigations.

We recognize that professional standards are not absolute measures for quality which must be rigidly applied in all instances, but rather, they are guiding principles for quality to be applied with professional judgment in individual circumstances. In our review, we use the term satisfactory compliance with a professional standard to mean that an organization adhered to a professional standard in a substantial majority of situations. However, we also consider the nature and significance of instances of noncompliance with the professional standard tested in determining satisfactory compliance. Because no absolute quantitative measurement criteria exist for evaluating compliance with generally accepted government auditing standards and other professional standards, review-team members rely heavily on professional judgment.

We assessed compliance on a standard-by-standard basis for the OIG audit and investigation functions. As discussed in chapters 2 and 3 for audits and investigations, respectively, we did not necessarily test each aspect of every standard. Accordingly, we cannot be certain that our review disclosed all material weaknesses in how the OIG conducts its operations; however, all material weaknesses which did come to our attention are discussed in this report. Appendix I gives additional details on our scope and methodology.

During our review, we met periodically with the IG and his staff to discuss our assessment results, as well as our observations on other management practices which we thought the OIG should consider. In addition, we provided the IG and his staff with our detailed findings on each audit and investigation we reviewed. We also obtained formal agency comments on a draft of this report (see appendix III) and incorporated the IG's comments where appropriate.

We conducted our work between August 1985 and February 1986 in accordance with generally accepted government auditing standards.

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## Mission, Organization, and Accomplishments of the EPA Inspector General

The Inspector General Act of 1978, as amended, and other legislation established an Office of Inspector General in 18 federal agencies and departments, including the Environmental Protection Agency. The inspector general concept, as set forth in the 1978 act, consolidated auditing and investigative responsibilities under a single, independent senior official. Inspectors general are appointed by the President with the advice and consent of the Senate. They report to and are under the general supervision of the agency head or deputy.

EPA established its Office of Inspector General on January 7, 1980. The EPA inspector general is under the general supervision of and reports to the Administrator. The IG has a deputy inspector general, who serves as the IG's principal assistant. The current inspector general, John C. Martin, took office on October 27, 1983.

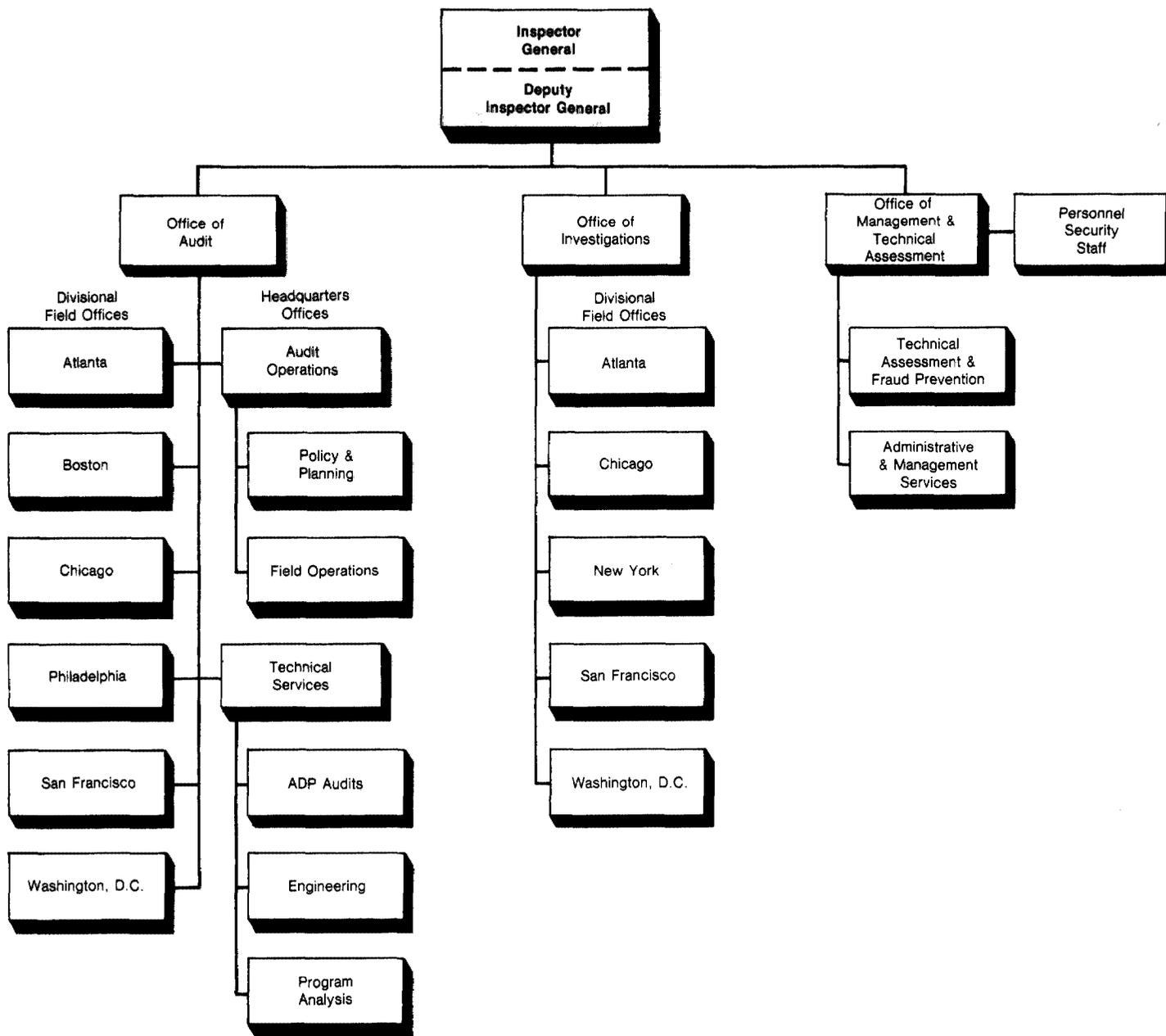
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## Mission and Organization

The inspector general's mission is to review EPA's financial transactions, program operations, and administrative activities, to investigate allegations or evidence of possible criminal and civil violations, and to promote economic, efficient, and effective operations within EPA. The OIG is also responsible for reviewing EPA regulations and legislation.

The Office of Inspector General carries out its mission through three major offices, which are each directed by an assistant inspector general: Office of Audit, Office of Investigations, and Office of Management and Technical Assessment. Nationally, there are six divisional inspectors general for audit and five divisional inspectors general for investigations, who direct staffs of auditors and investigators. The divisional inspectors general report to the appropriate assistant inspectors general, and the assistant inspectors general report to the inspector general. Figure 1.1 displays the OIG organization chart.

Figure 1.1: U.S. Environmental Protection Agency, Office of Inspector General Organization Chart



Source: Environmental Protection Agency Office of Inspector General

For fiscal year 1985, EPA was authorized the equivalent of 12,626 full-time employees. Of this number, the OIG was authorized the equivalent of 256 full-time positions. At fiscal year-end, the OIG had 266 staff members. Table 1.1 summarizes the OIG's headquarters and field office positions as of September 30, 1985.

**Table 1.1: OIG Staff Members as of September 30, 1985**

<b>Office</b>	<b>Headquarters</b>	<b>Field</b>	<b>Total</b>
Inspector General	4	0	<b>4</b>
Audit	33	137	<b>170</b>
Investigations	9	55	<b>64</b>
Management and Technical Assessment	28	0	<b>28</b>
<b>Totals</b>	<b>74</b>	<b>192</b>	<b>266</b>

In fiscal year 1985, EPA's budget was \$5.4 billion. This included \$1.3 billion for operating programs, \$3.5 billion for construction grants, and \$620 million for the Hazardous Substance Response Trust Fund (commonly referred to as the Superfund). The OIG's operation is funded primarily by EPA's salaries and expenses appropriation. In addition, the OIG receives funds from the Hazardous Substance Response Trust Fund appropriation to audit that program. In 1985, the OIG budget was \$16.9 million. Of this amount, \$4.6 million was for audits performed by independent public accountants, state auditors, and other federal audit agencies. Table 1.2 summarizes the OIG budget for fiscal year 1985.

Table 1.2: OIG Budget, Fiscal Year 1985

Dollars in Millions

Expenditures	EPA appropriation account		Total OIG budget
	Salaries and expenses	Hazardous Substance Response Trust Fund	
Personnel compensation and benefits	\$9.1	\$1.1	\$10.2
Other costs	1.9	0.2	2.1
	<b>11.0</b>	<b>1.3</b>	<b>12.3</b>
Program contracts <sup>a</sup>	2.2	1.1	3.3
California grant <sup>b</sup>	0.3	0	0.3
Interagency agreements <sup>c</sup>	0.8	0.2	1.0
	<b>3.3</b>	<b>1.3</b>	<b>4.6</b>
<b>Totals</b>	<b>\$14.3</b>	<b>\$2.6</b>	<b>\$16.9</b>

Note: Actual figures as of September 30, 1985.

<sup>a</sup>Cost of audits performed by independent public accountants.

<sup>b</sup>Cost of audits performed by the State of California's Office of the Auditor General.

<sup>c</sup>Cost of audits performed by other federal audit agencies.

Audit

The Office of Audit performs internal and external audits of agency programs and activities. Internal audits encompass selected agency administrative and program operations to evaluate the (1) economy, efficiency, and effectiveness of operations and (2) achievement of program objectives. External audits concern the records and performance of organizations and entities receiving agency financial assistance or benefits to determine (1) compliance with statutes, regulations, terms, and agreements under which the funds are made and (2) the appropriateness of the disposition of funds granted or administered.

The Office of Audit consists of two headquarters staff offices and six field divisions. The Audit Operations Staff develops audit policy, maintains information about EPA's audit universe, assesses the audit priority of EPA programs, develops the annual work plan, and oversees field operations. The Technical Services Staff provides technical engineering review assistance to ongoing audits of EPA's construction grant and toxic substances programs; identifies, plans, and oversees audits of EPA's automated data processing operations; and obtains a detailed working knowledge of the statutes, regulations, and policies and procedures related to EPA programs. The Atlanta, Boston,<sup>3</sup> Chicago, Philadelphia,

<sup>3</sup>On November 24, 1985, the divisional field office was transferred from New York to Boston. The New York office was redesignated as a branch office of the Boston divisional field office.

San Francisco, and Washington, D.C., field divisions conduct internal and external audits. They also arrange and control audit assistance performed by other federal audit agencies and nonfederal auditors.

#### Investigations

The Office of Investigations investigates indications and allegations of irregularities, and violations of agency regulations or federal criminal statutes. The office investigates (1) criminal matters involving fraud, waste, and abuse by EPA employees, contractors, or grantees and (2) allegations against employees for unethical or other conduct prejudicial to the government. The office consists of a headquarters staff and five field divisions. The headquarters staff directs and coordinates nationwide investigations, provides technical guidance and oversees field operations, and briefs EPA employees on standards of conduct. The Atlanta, Chicago, New York, San Francisco, and Washington, D.C., field divisions perform investigative work.

#### Management and Technical Assessment

The Office of Management and Technical Assessment performs a number of functions that assist the OIG in carrying out its mission. The office consists of two divisions and one staff unit. The Technical Assessment and Fraud Prevention Division reviews agency programs, operations, and proposed legislation and regulations to identify areas considered sensitive to fraud, waste, and abuse; operates the OIG suspension and debarment program; conducts management assessment reviews of OIG audit and investigation field divisions; and operates the agency's hotline. The Administrative and Management Services Division provides OIG administrative and management support services; develops and controls OIG budgets; prepares OIG semiannual reports to the Congress; coordinates the employee public awareness program; and develops OIG policies, standards, and operating procedures. The Personnel Security Staff ensures that initial and continuing employment of EPA personnel is consistent with national security requirements.

#### Other

Although not a part of the OIG, the Inspector General Division of the Office of General Counsel provides exclusive legal services to the OIG. The Inspector General Division, which is headed by an associate general counsel, provides legal advice and counsel in such areas as the application of statutes, regulations, legal interpretations, and policy directives on the administration of agency programs; the interpretation of statutes applicable to the OIG; and investigative procedures and techniques. The

Inspector General Division operates under a memorandum of understanding between the Office of Inspector General and the Office of General Counsel, which was approved by the Administrator on November 10, 1983.

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## OIG Improvements

Over 3 years ago, the OIG faced serious problems. The IG reported in the March 31, 1983, semiannual report to the Congress that:

“...the OIG at EPA has never, since the passage of the Inspector General Act, been able to effectively carry out the intent of the Act. Because of inadequate staffing and resources, the OIG is in many respects ineffective and cannot adequately serve management with the necessary audit and investigative coverage to detect and protect the Agency from possible fraud, waste, abuse, and mismanagement in its programs and operations. Additionally, the independence and credibility of the OIG is diluted because of agency requirements imposed upon the OIG regarding hiring, budget constraints, congressional correspondence, and legal assistance.”

When the current inspector general took office, he worked closely with EPA management to resolve these past problems. In addition, he took other steps to establish the OIG as an independent and credible organization so that it is a more recognized and respected EPA entity. Some of the significant OIG changes and improvements made during the past 3 years are:

- The authorized staffing level was increased from the equivalent of 176 full-time positions in fiscal year 1983 to the equivalent of 256 full-time positions in fiscal year 1985.
- The OIG was exempted from obtaining clearances either for hiring and recruiting staff or for responding to congressional inquiries.
- A separate associate counsel's office was established within the Office of General Counsel solely to serve the OIG.
- The EPA personnel security program was transferred to the OIG.
- A new supervisory management team was installed in the Office of Investigations, and 70 percent of the total investigative staff was hired. Also, the Office of Investigations made the transition from investigating primarily minor administrative matters to investigating criminal cases, such as fraud and bid-rigging schemes.
- An internal and management audit program was developed and implemented to examine many critical EPA programs and operations. About 48 percent of the Office of Audit's direct resources are devoted to this effort.

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- A management assessment review program was established to measure the extent OIG offices are implementing and following OIG policies and standards, and to assess the quality of OIG products.
  - New audit and investigation policies and procedures were adopted to ensure adherence with professional standards.

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## Reported Accomplishments

The Inspector General Act of 1978 requires each IG to submit to the agency head semiannual reports for transmittal to the Congress which summarize the office activities during the immediately preceding 6-month periods ending March 31 and September 30. As part of our review, we looked at the audit and investigation summaries and statistical data on accomplishments in the OIG's two semiannual reports for fiscal year 1985. We found that the information was consistent with OIG and agency records pertaining to the audits, investigations, and accomplishments. For fiscal year 1985, the EPA Office of Inspector General reported in its two semiannual reports a number of significant activities, as outlined in table 1.3.

**Table 1.3: Summary of Significant OIG Activities, Fiscal Year 1985**

Dollars in Millions	
<b>Audit operations</b>	
Questioned costs <sup>a</sup>	\$162.5
Set-aside costs <sup>b</sup>	\$343.3
Sustained costs for recovery savings—federal share <sup>c</sup>	\$62.9
Cost efficiencies or deobligations <sup>d</sup>	\$2.8
Recoveries from audit resolutions of current and prior periods <sup>e</sup>	\$27.1
Audits performed by the OIG	207
Audits performed by another federal agency, state auditors, or independent public accountants, and Attachment P audits	1,389
Audit reports resolved <sup>f</sup>	1,543
<b>Investigative operations</b>	
Fines and recoveries	\$956,708
Indictments/convictions	32
Administrative sanctions	43
<b>Fraud detection and prevention operations</b>	
Debarments, suspensions, voluntary exclusions, and settlement agreements <sup>g</sup>	66
Proposed legislative and regulatory items reviewed	291
Personnel security investigations adjudicated	618

<sup>a</sup>Represents expenditures which are not allowable. These costs are subject to reduction pending further review in the audit resolution process.

<sup>b</sup>Represents expenditures which are insufficiently supported to determine their allowability. These costs are subject to reduction pending further review in the audit resolution process.

<sup>c</sup>Represents costs which EPA management agrees are unallowable; management is committed to recover or offset against future payments.

<sup>d</sup>Represents funds made available by EPA management's commitment to implement recommendations in OIG internal and management or preaward audits.

<sup>e</sup>Represents cash collections or offsets against future payments.

<sup>f</sup>Represents agreement by EPA officials to take satisfactory corrective action.

<sup>g</sup>Represents actions to deny persons or firms from participating in EPA programs or operations because of misconduct or poor performance.

Source: EPA Office of Inspector General.

# Assessment of the Audit Function

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The Inspector General Act of 1978 requires the IG, in carrying out the position's audit responsibilities, to comply with generally accepted government auditing standards established by the Comptroller General. The standards are contained in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. The standards are general in nature and, as such, permit an IG flexibility in developing and implementing policies and procedures for ensuring compliance with the standards.

We grouped the generally accepted government auditing standards into 10 categories, which we used for assessing the EPA Office of Inspector General audit function. (See appendix I.) In addition, we assessed the OIG audit function using two other categories of professional standards—annual audit planning and quality assurance—which the generally accepted government auditing standards do not address. For these assessments, we used the planning and quality-assurance standards contained in the President's Council on Integrity and Efficiency (PCIE) Interim Quality Standards for Federal Offices of Inspector General,<sup>4</sup> which apply to all OIG functions. We also used OMB circular A-73, "Audit of Federal Operations and Programs," which all OIGs are required to follow for annual audit planning.

In assessing the OIG's compliance with the 12 categories of standards, we evaluated OIG quality-control systems; reviewed 20 audit assignments, which included reports and work papers; and tested the adequacy of certain OIG procedures designed to ensure quality in audit work. We also sent a questionnaire to OIG auditors to solicit their views on subjects related to our assessment; 88 percent of those contacted responded.

The OIG satisfactorily complied with 10 of the 12 categories of generally accepted government auditing standards and other professional standards in the areas which we tested. The categories included staff qualifications; independence; annual audit planning; individual job planning; supervision; legal and regulatory requirements; fraud, abuse, and illegal acts; reporting; audit follow-up; and quality assurance. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the standards in the areas of internal controls and evidence. Table 2.1 summarizes the OIG's compliance with each standard.

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<sup>4</sup>The PCIE adopted these standards in final form in January 1986.

**Chapter 2**  
**Assessment of the Audit Function**

**Table 2.1: Summary of OIG Compliance With Audit Standards**

<b>Standard</b>	<b>Compliance</b>
Staff qualifications	The OIG satisfactorily complies with this standard.
Independence	The OIG satisfactorily complies with this standard.
Annual audit planning	The OIG satisfactorily complies with both the PCIE standard and OMB circular A-73. However, the OIG should place greater emphasis on conducting financial statement audits.
Individual job planning	The OIG satisfactorily complies with this standard. However, the OIG could improve the conduct of desk audits by requiring written audit programs.
Supervision	The OIG satisfactorily complies with this standard. However, the OIG could improve the conduct of desk audits by requiring supervisors to document their reviews of subordinates' work and evidence to support report findings.
Legal and regulatory requirements	The OIG satisfactorily complies with this standard with regard to conducting compliance reviews of pertinent laws and regulations that OIG auditors identified.
Internal controls	The OIG does not satisfactorily comply with the requirements of this standard to determine when an internal control study should be done and to report the scope of internal control work.
Evidence	The OIG satisfactorily complies with some aspects of this standard but does not satisfactorily comply with aspects requiring work-paper evidence to support report findings.
Fraud, abuse, and illegal acts	The OIG satisfactorily complies with this standard.
Reporting	The OIG satisfactorily complies with this standard. However, the OIG could improve the conduct of desk audits by requiring statements on audit scope, objectives, and standards in reports.
Audit follow-up	The OIG satisfactorily complies with this standard. However, the OIG could enhance its audit follow-up efforts by tracking and determining, on a systematic basis, the audit resolution of OIG recommendations.
Quality assurance	The OIG satisfactorily complies with the PCIE standard with regard to the establishment of a quality-assurance program.

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## Compliance With Standards

The following sections discuss our assessment of the OIG's compliance with audit standards.

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### Staff Qualifications

The standard requires that the staff on an assignment collectively possess adequate professional proficiency for the tasks required. The standard points out that every auditor does not need to be skilled in all auditing techniques, but the audit organization should employ auditors who collectively can carry out its audit mission. Audit organizations can ensure that they meet these requirements by employing qualified staff, providing training, and evaluating performance.

The OIG satisfactorily complies with this standard. The OIG only employs auditors that meet or exceed the minimum Office of Personnel Management (OPM) education and/or experience requirements for the GS-511 auditing series. The basic requirements include either a bachelor's degree with an accounting major, a bachelor's degree with or supplemented by 24 semester hours in accounting, or an equivalent combination of accounting experience, college-level education, and training. The amount of required experience increases as the civil service grade level increases. Also, certain education achievements can substitute for experience requirements. For example, a master's degree in business, accounting, or public administration satisfies requirements to be a GS-9 auditor.

We verified that the EPA personnel office properly classified OIG auditors. In a sample review of 109 auditors' personnel records, including those auditors who were assigned to our sample audits, we confirmed that each auditor's Personal Qualifications Statement—Standard Form 171—and other supporting documentation met OPM's GS-511 auditor classification standards. All but 4 of the 109 auditors had master's or bachelor's degrees in such areas as accounting, business administration, management, or public administration. In addition, 29 auditors were Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors. Also, over half of the auditors had prior auditing experience with other organizations, including inspectors general offices.

OIG auditors received job-related training after they were hired. In a sample review of 109 auditors' training records, including those auditors who were assigned to our sample audits, we found that 92 auditors had

attended one or more training courses during the 2-year period ending September 30, 1985. For example, the auditors had taken such courses as basic auditor training, operational auditing, and audit report writing. Of the 17 auditors who did not receive training, 10 had only recently been hired by the OIG.

We sent a questionnaire to the OIG professional staff to obtain their views on several issues. Our questionnaire was answered by 109 auditors. In the area of training, 67 percent thought that training in the last 2 years was adequate or generally adequate to prepare them for the work assignments they performed, 15 percent thought the training was generally inadequate, 11 percent thought it was inadequate, and 8 percent were undecided. (Totals will not equal 100 percent due to rounding.)

The OIG's fiscal year 1985 management assessment reviews<sup>5</sup> (MARS) of the divisional field offices identified the need for additional training. According to four of six MARS, auditors should be taking courses in supervision, fraud prevention, and report writing. OIG officials told us that meeting the auditors' training needs has been a problem. They stated that limited travel funds have handicapped the training program. For example, one divisional field office had scheduled staff to attend 50 courses during fiscal year 1985, but only 3 had been taken because of the lack of travel funds for training.

In July 1985, the OIG developed a computerized training profile which sets out the mandatory, recommended, and optional courses the auditors at each grade level should take. The training profile, however, has not been fully used largely because the auditors' training records are not completely accurate or current. OIG officials told us that as of April 1986, the training records were still being verified and updated. In his July 25, 1986, response to our draft report, the IG stated that the computerized training profile was fully operational with complete, accurate, and timely information. With such information, the OIG will be able to establish meaningful training priorities and to implement effective training strategies.

The OIG also annually prepares performance appraisals on its auditors. They are rated on a number of job dimensions as outstanding, exceeds

<sup>5</sup>Management assessment reviews determine operational and administrative effectiveness and efficiency and the degree of compliance with OIG policies and procedures. The "quality assurance" section of our report has a further discussion of the program. (See page 38.)

expectations, fully successful, minimally satisfactory, or unsatisfactory. We reviewed the appraisals given to 109 auditors during fiscal years 1984 and 1985, including those who were assigned to our sampled audits. All auditors were rated fully successful or higher, and their appraisals did not reflect the need for training or coaching to improve their performance.

Of the auditors responding to our questionnaire, 79 percent thought that during the past 2 years, their supervisors or other responsible officials had discussed their performance appraisals with them in sufficient detail to provide a clear understanding of their strengths and/or needed improvements in their work, 17 percent did not think the discussions were sufficient, and 5 percent were undecided. (Totals will not equal 100 percent due to rounding.)

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## **Independence**

The standard requires that in all matters relating to audit work, the audit organization and the individual auditors must (1) be free from personal or external impairments to independence, (2) be organizationally independent, and (3) maintain an independent attitude. The standard makes auditors and audit organizations responsible for maintaining independence so that opinions, conclusions, judgments, and recommendations will be viewed as impartial by knowledgeable third parties. The standard recognizes three general classes of impairments: organizational, external, and personal.

The OIG satisfactorily complies with this standard. The organizational placement of the IG, directly reporting to the Administrator of EPA as prescribed by the Inspector General Act of 1978, locates the audit unit outside the staff or line management of EPA organizations and people who might be subject to audit. For example, the divisional inspectors general for audit report to the assistant inspector general for audit, not an EPA regional administrator. Further, EPA program officials have no authority over how audits are conducted.

With regard to the audit function being free of external impairments to independence, we did not find any evidence of external interference in the OIG records of our 20 sampled audits or in discussions with auditors and managers.

In an earlier report,<sup>6</sup> we recommended that the federal budget process should be modified to enhance the independence of the inspectors general. EPA adheres to our recommendation by having procedures which provide that the Administrator receives the OIG's unmodified budget request and that the IG may meet with the Administrator to present the OIG's budget.

We did not identify any instances where an auditor's personal independence had been impaired. Government personnel regulations require OIG auditors at the GS-13 level and above to file an annual financial disclosure statement; new employees hired at these levels must file a statement within 30 days of assuming duties. Further, a designated OIG management official must review the statements. We found that all OIG auditors required to submit the financial disclosure statements for 1984 and 1985 did so. We also found that each statement had been reviewed for completeness and possible areas of conflict and had been signed by the designated OIG management official—the deputy IG. We reviewed all of the financial disclosure statements, and we did not identify any impairments to personal independence. Also, through discussions with assigned staff, we did not find any personal impairments in our 20 sampled audits. Further, the auditors and managers we interviewed stated that they were unaware of any instances where an auditor's personal independence had been impaired.

In 18 of our 20 sampled audits, the auditors-in-charge were GS-12's who were not required to submit financial disclosure statements. Since these auditors make important decisions regarding the daily management of their respective assignments as well as developing findings, conclusions, and recommendations, we believe it is important that the OIG be aware of their financial interests. OIG officials told us in April 1986 that they were changing the requirements to have all GS-12 staff submit financial disclosure statements. In his July 25, 1986, response to our draft report, the IG stated that all GS-12 auditors are now required to submit annual financial disclosure statements.

Under the OIG's current system, designated OIG staff as well as the deputy IG or IG review the auditors' financial disclosure statements to identify any potential conflicts. If a conflict is identified, it is resolved through negotiations between the reviewing officials and the individual employee. Although OIG procedures require copies of these negotiated

<sup>6</sup>Impact of Administrative Budget Procedures on Independence of Offices of Inspector General (GAO/AFMD-84-78, September 26, 1984).

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agreements to be forwarded to the employee's supervisor, we found instances where this had not been done.

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## Annual Audit Planning

The PCIE Interim Quality Standards for Federal Offices of Inspector General and OMB circular A-73, "Audit of Federal Operations and Programs," require that each audit organization identify the organizations, programs, and activities within its department or agency that are subject to audit. From this universe, it must develop, at least annually, a plan of scheduled audits that should be reviewed with the agency head or deputy head.

The OIG satisfactorily complies with both the PCIE standard and OMB circular A-73. The OIG has identified all major agency programs, construction grants, other grants and contracts, and Superfund grants, contracts, and cooperative agreements as auditable entities within EPA. Annually, the OIG prepares a plan that identifies scheduled audits for the year. To develop the OIG annual plan, the Office of Audit staff and EPA's assistant and regional administrators are requested to submit suggestions for potential audit work for the coming year. Each suggestion is reviewed and ranked, using a standard set of ranking factors, by an audit planning committee, which is composed of the deputy assistant inspector general for audit, the directors of the audit operations and technical services staffs, and a divisional inspector general for audit. Based on OIG management decisions on the allocation of resources between audit needs and balanced program coverage, the annual plan's overall objectives are established. The plan's details are developed cooperatively between the headquarters Office of Audit and field management. After IG and deputy IG review, the Office of Audit finalizes the plan and distributes it to interested parties within and outside the agency. The plan, however, does not include any specific grant or contract audits that will be performed by EPA or contract auditors because this work is difficult to identify in advance since it is performed on a request basis by program managers. The Office of Audit updates the plan quarterly.

## Audit Coverage

The OIG programs its audit resources in correlation with EPA's budget. In fiscal year 1985, over 50 percent of EPA's budget was allotted for construction grants and other grants and contracts. Likewise, the OIG's fiscal year 1985 audit plan budgeted more than 50 percent of its staff resources to audit this area. In addition, the OIG planned audits in each of EPA's other functional areas, such as the Superfund, and it budgeted its staff resources in relation to each functional area's budget.

Another aspect of audit coverage is the type of audits that are performed. In this regard, the OIG during the past 3 years has been conducting more economy and efficiency audits (reviews of how well an organization manages and uses resources) and program results audits (reviews of the outcomes or impacts of programs, conformance with laws and regulations, and program costs). According to the fiscal year 1985 audit plan, the OIG scheduled 43 percent of its audit resources for contract and grant audits, 24 percent for economy and efficiency and program results audits, 23 percent for Superfund audits, and 10 percent for agency assistance. Examples of audits in economy and efficiency and program results included examining EPA programs dealing with asbestos in schools, state delegation of the construction grant program, bid-rigging activities, registration and reregistration of pesticides, the Environmental Impact Statement review, and enforcement activities under the Resource Conservation and Recovery Act. During the year, the OIG devoted 49 percent of its actual staff time to economy and efficiency and program results audits. Not all audits in the 1985 plan were performed because of higher priority work, such as congressional requests.

The Superfund trust fund account was the only financial statement audit performed during fiscal year 1985. According to OIG officials, this audit encompassed detailed review and testing in each of EPA's 15 finance offices and all program offices that worked on or provided assistance to the Superfund program. They also stated that more than 17 staff years of resources were utilized in performing the auditing and producing the individual reports. However, while this audit was not specifically included in the OIG's fiscal year 1985 audit plan, OIG officials told us that it was always planned to be done. The plan also did not include any other audits of agency financial statements or reports.

While the Superfund audit is a step in the right direction, we believe an audit which reviews financial management from a top-down perspective of examining financial reports and the reliability of accounting systems to produce accurate and meaningful reports for the total agency is extremely important. As such, we believe that the OIG should expand its financial audit program to include audits that express an opinion on the accuracy and adequacy of EPA's financial reports. Such audits will increase the discipline needed for sound financial management, enhance oversight, and help ensure financial integrity.

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## Individual Job Planning

The standard requires that audit organizations adequately plan their work. A written audit plan should be prepared for each audit. Planning

should include consideration of coordination with other government auditors, personnel used on the assignment, work done, and the format and general content of the report.

The single most significant factor affecting the quality of audit work and related reports is the degree to which (1) appropriate auditing tests and procedures for performing the work are designed to meet planned objectives and (2) the information obtained or developed during the audit supports the facts and conclusions reported. The preparation of a written audit program is an integral part of the planning function for each assignment. A carefully developed audit program helps ensure that the auditors perform all the necessary steps to meet the audit objectives and that they develop sufficient, competent, and relevant support for all findings, conclusions, and recommendations. Audit programs also provide a means for higher-level review and evaluation of the scope and conduct of the audit work.

The OIG satisfactorily complies with the individual job planning standard. Our review of 20 sampled audits indicated that, during the planning phase of an audit, the OIG auditors coordinated with other audit units, assessed staff requirements, and obtained legal counsel, when necessary. In addition, audit programs were prepared for 15 of 20 sampled assignments. For the other 5 assignments—all were desk audits<sup>7</sup>—written audit programs were not part of the audit work papers. However, the OIG concluded in April 1986 that desk audits, which represented 11 percent of the OIG's fiscal year 1985 audit reports, were not, in fact, audits. OIG officials told us that they should not have called the resulting products "audit reports." To rectify this situation, the OIG plans to issue in October 1986 a chapter in its policies and procedures manual which defines the various types of special reviews it performs and the applicable requirements for performing such reviews.

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## Supervision

The standard requires supervisory reviews of the audit plan, audit work and related reports, and the audit staff's judgment. Also, the standard states that staff members are to be properly supervised. Supervisors must review and comment on all work products from individual work papers through draft reports and retain evidence of these reviews in the work papers. Supervisory reviews should determine whether the audit

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<sup>7</sup>The OIG defines desk audits as limited scope audits of grants. These audits only evaluate information contained in official project files. Also, no fieldwork is performed. No further criteria exist for performing desk audits.

scope and programs are adequate and are followed, the work papers adequately support findings and conclusions and provide sufficient data to prepare a meaningful report, and the audit objectives are met. Therefore, supervision is particularly important for ensuring audit quality.

The OIG satisfactorily complies with this standard. In 17 of 20 sampled audits, OIG supervisors provided input in preparing audit plans. Responses from our questionnaire indicated that 60 percent of the audit staff felt that supervisors had adequately or more than adequately reviewed the audit plan, 24 percent thought the review was marginally adequate, and 17 percent thought it was inadequate or very inadequate. Also, supervisors ensured that work assignments were (1) understood by audit staff in all sampled audits and (2) commensurate with staff abilities in 19 of 20 sampled audits.

When the assignment was a desk audit, however, OIG supervisors did not always satisfactorily perform their review responsibilities. In 3 desk audits—and 3 other audits—we found no written evidence that a supervisor took steps, such as checking the indexed report to supporting work papers, to ensure that the work papers supported the report findings. In management assessment reviews conducted in 1984 and 1985, the OIG also disclosed similar problems. In addition, we did not find any written evidence in 5 desk audits that supervisors (1) monitored subordinates' work to ensure that it adhered to the audit plan and (2) took steps to ensure that audit objectives were met. As previously discussed, the OIG concluded that desk audits were not, in fact, audits, and it is planning corrective action.

OIG policies and procedures require the use of comment sheets and evidence of supervisory review on all work papers and draft reports. In some sampled audits, we found the supervisor used OIG checklists to review work papers and draft reports. The use of these checklists would help ensure compliance with this standard and OIG policies and procedures.

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## Legal and Regulatory Requirements

The standard requires that auditors review compliance with applicable laws and regulations. These reviews are necessary so that auditors can (1) gain an understanding of the expected results of the programs or activities being reviewed and (2) determine compliance with laws and regulations that could materially affect an entity's financial statements or the acquisition, management, and utilization of the entity's resources.

The OIG satisfactorily complies with this standard with regard to conducting compliance reviews of pertinent laws and regulations. In 17 of 20 audits we reviewed, the OIG auditors conducted compliance reviews of pertinent laws and regulations that they identified, and we agreed with their compliance determinations. The other 3 audits were desk audits, and the scope of the audit did not include compliance testing. We did not verify that the auditors adequately identified all applicable laws and regulations.

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## **Internal Controls**

Internal controls are the plans of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports. Internal controls may be classified as accounting or administrative controls.

The standard requires that auditors study and evaluate internal control systems applicable to the organization, program, activity, or function under review. Audit reports should contain a description of material weaknesses found in the internal control systems. The standard applies to all economy and efficiency audits, and program results audits; however, the nature, extent, and scope of the work necessary for conforming with the standard will vary depending on audit objectives. Where audit objectives include determining the cause of management problems or deficiencies and making recommendations, the standard requires that the audit study and evaluate internal controls as well as report any material weaknesses found.

If internal control studies are not made because (1) auditors determined that the studies were not important considering the specific objectives or scope of an audit or (2) auditors expanded testing of details and applied analytical techniques, this would not be a deviation from auditing standards. When internal controls are important to audit objectives discussed in the audit report, but the audit did not evaluate them, the report should disclose the audit organization's reason for not performing the evaluation. Where applicable, the scope and methodology section of audit reports should clearly describe what the auditors did in evaluating pertinent internal control systems and the extent to which the auditors relied on the internal control systems in determining the scope of their work.

OIG policy requires a study and evaluation of internal controls on most audits. However, the OIG does not have adequate policies and procedures defining when a study and evaluation of internal controls is needed. The policy states that the scope of review of the internal controls depends on the type of audit, and a divisional inspector general or a delegate decides on the scope of review. For example, OIG officials told us that on preaward or interim audits of grants and contracts, the OIG gives particular attention to the significant internal controls on which EPA is relying. On final audits of grants and contracts, substantive testing is done with respect to the actual costs claimed or reported. However, the OIG's policies and procedures do not provide specific guidance on the type of audit requiring, and the extent to which, a study and evaluation of internal controls is needed. In addition, the OIG has no policy requiring auditors to report that a study and evaluation of internal controls was not made or to state the reasons why.

Despite the fact that the OIG has no clear policy on when to conduct an internal control study, it does have procedures on how to conduct internal control work. Nevertheless, we believe the OIG policy should provide guidance on when a study and evaluation of internal controls is necessary.

The OIG also does not satisfactorily comply with the requirement of the standard to report the scope of internal control work. We examined the audit work papers and held discussions with supervisors to determine the extent to which OIG auditors identified pertinent internal control systems and tested adherence to prescribed systems, policies, and procedures. In 6 of 20 sampled cases, the OIG auditors concluded—based on the stated audit objectives, size of auditee, or other considerations—that internal control system work was not required. Because these 6 cases were desk audits, we concurred and concluded that this standard was not applicable in these particular cases.

In addition, we found that OIG auditors did not consider for study all pertinent internal control systems in 7 of the remaining 14 audits reviewed. In these cases, we found no indication in the the work papers that the OIG auditors had determined whether the internal control systems were necessary or important to study, considering the specific objectives or scope of the audit assignment. However, this limitation in scope was not disclosed in 6 of the 7 audit reports. For the 7 audits in our sample where the OIG auditors had identified pertinent internal controls, we found no instances where the auditors did not perform adequate evaluation of the internal control systems.

OIG auditors relied upon computer-generated information in two of our sampled cases. In one case, the auditors did not test the controls over the computer system, use other procedures to determine system and data reliability or integrity, or disclose in their report that they did not perform this work.

Identifying internal control systems and performing tests to determine the degree of compliance with system policies and procedures help auditors determine the extent of reliance that they can place on the system and the data, records, or other information generated from that system. Not performing the internal control work, unless justifiably based on one of the exceptions cited earlier, can result in questions about the adequacy and competency of the evidence developed during the audit. This can ultimately affect the credibility of the audit report.

The OIG agreed that it has not fully complied with the internal controls standard. In response to our work, the OIG implemented policies and procedures on June 10, 1986, outlining when an identification and evaluation of internal controls is needed and describing the procedures for reporting the scope of internal control work. In addition, the OIG plans to issue instructions covering audit work that relies on computer-generated information.

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## Evidence

The standard requires that auditors obtain sufficient, competent, and relevant evidence—physical, testimonial, documentary, and analytical—to provide a reasonable basis for their judgments and conclusions. A written record of the auditor's work must be retained in the form of work papers, which are complete, accurate, clear, legible, and relevant. Auditors can rely on other auditors' work once they are satisfied as to the capabilities, independence, and performance of such work.

In testing compliance with the evidence standard, we determined whether the work was documented in the work papers. This included whether the nature and scope of the audit were clearly stated; whether work papers were understandable, clear, and legibly prepared; whether evidence was sufficient, competent, and relevant to the audit objectives; and whether the evidence supported the auditors' conclusions.

Sufficient, competent, and relevant evidence is important for ensuring high-quality reports, and we believe this standard also requires a very high degree of compliance. The OIG satisfactorily complies with some

aspects of this standard. Auditors obtained audit support through physical examination, observation, computation, or inspection, and, where appropriate, from independent sources. The OIG also kept a written record of its work in the form of work papers on all the reviewed assignments.

In 4 of 20 sampled audits, however, we identified cases where the audit work papers did not contain enough factual and convincing information for all the areas reported on to allow us to verify factual statements in the audit reports. Problems included no work-paper support for numerical data contained in the report and insufficient substantive testing of auditee books and records. The deficiencies, however, were not significant enough to change the audit conclusions.

For example, in one audit, which was a desk audit, the purpose was to determine whether the \$104,055 in engineering costs claimed under a grant were reasonable, allocable, and allowable. The OIG audit report concluded that the costs claimed present fairly the financial information in accordance with the grant's financial provisions and generally accepted accounting principles. In our opinion, however, the work papers did not contain sufficient and competent evidence to support the reported conclusions. The OIG auditors did not verify any of the costs claimed under the grant. Instead, the OIG's opinion was based on a review of the EPA project files and grantee invoices. OIG officials told us that the necessary documentation for the audit was poor. Since it was a desk audit, OIG officials stated it was not an "audit," and the product should not have been issued as an audit report indicating compliance with generally accepted government auditing standards. OIG officials told us that a memorandum or other form of report should have been issued which provided the EPA regional office with the necessary information to properly close out the grant.

In another audit, the purpose was to determine whether a grantee's accounting, construction management, and procurement controls were adequate and effective. Also, the audit included a review of the contractor's records and verification of costs reported to EPA. The audit report presented a table which showed the costs incurred and claimed under the grant as well as the results of the audit of these costs. The work papers supporting this table were poorly organized, and they did not include basic information such as source of data or other material to explain how the numbers were derived. Because the work papers lacked clarity, understandability, and completeness, they did not serve as the link between the field work and the table presented in the audit report.

As a result, we question the support of the data presented in this table. Also, the report user told us that she questioned the validity of the audited costs, particularly the questioned and set-aside costs. She attempted to determine how the OIG auditors developed the costs by tracing the numbers in the audit report back to the work papers; however, she was unable to do so. OIG officials told us that the work papers "left a lot to be desired." Nevertheless, they still believe that it was proper to issue the audit report because it addressed significant problems.

"Referencing" is a process that checks the adequacy of evidence. In this process, an experienced auditor with no involvement on an assignment compares reported information with work-paper support. Although not required by audit standards, it is a useful technique that can help ensure quality reports. We found that the OIG does not use this process. Instead, it relies on the assignment supervisor to review the work papers to make certain the draft report is supported by adequate evidence. As we discussed under the supervision standard, this check was not performed on some audits, including the four discussed under this standard.

In his July 25, 1986, response to our draft report, the IG stated that the OIG's existing review procedures were adequate, but he recognizes the added assurance that the referencing process provides. The IG stated the OIG plans to require referencing on all major audits or any controversial audit.

With regard to that aspect of the standard regarding auditors' reliance on other auditors' work, the OIG has a quality control review process for ensuring the quality of work performed by public accounting firms and state audit organizations. The process includes (1) a review of audit reports to determine their accuracy, completeness, supportability, significance, readability, and format; (2) a review of audit work papers to determine their adherence with audit standards; and (3) on-site reviews to evaluate the performance of contractors' staffs and the audit techniques used. We recently reported on the Certified Public Accountant (CPA) audit quality reviews conducted by seven OIGs,<sup>8</sup> including the EPA Office of Inspector General. Our report concluded that the OIGs' reviews generally were adequately performed.

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<sup>8</sup>CPA Audit Quality: Inspectors General Find Significant Problems (GAO/AFMD-86-20, December 5, 1985).

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Fraud, Abuse, and Illegal Acts

The standard requires that auditors be alert to situations or transactions that could indicate fraud, abuse, or illegal acts. If such evidence exists, auditors should extend audit steps and procedures to identify the effect on the entity's operations and programs.

The OIG satisfactorily complies with this standard. In reviewing the audit work papers and talking with supervisors for our sample cases, we identified 6 of 20 audits where indications of fraud or abuse existed. In all of these assignments, the OIG auditors appropriately expanded the original audit scope and testing, obtained assistance from staff with specialized skills, coordinated with OIG investigators, and/or expeditiously reported information about potential fraud and abuse to appropriate agency and law enforcement officials.

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Reporting

Generally accepted government auditing standards contain five separate standards for reporting: report form, distribution, timeliness, content, and presentation. The following sections summarize the results of our review in each of these areas.

Report Form

The standard requires that written audit reports be prepared which give the results of each government audit. We did not evaluate OIG compliance with this standard. Rather, we selected for review only those assignments that resulted in audit reports.

Report Distribution

The standard requires that federal audit organizations submit their reports to appropriate officials of the organization audited and to those officials requiring or arranging for the audits, unless prevented by legal restrictions or ethical considerations. Audit organizations should also send copies of reports to officials who may be responsible for action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, audit organizations should make copies available for public inspection.

The OIG satisfactorily complies with this standard. It appropriately distributed all reports resulting from the audits in our sample. Those receiving the reports included officials of the audited organization and officials of the EPA unit responsible for taking action on findings and recommendations. In addition, the Office of Inspector General Manual states that "unless restricted by laws or regulation, copies should be

made available for public inspection.” OIG officials told us that audit reports are available to the general public upon written request.

However, the inspector general section of the Environmental Protection Agency Manual contains requirements which are inconsistent with OIG’s policy. The EPA manual requires that requests for audit reports to be directed to EPA’s Freedom of Information Officer, who will refer them to the OIG. The manual further states that, with the exception of congressional requests, all other requests will be treated as Freedom of Information Act requests.<sup>9</sup> We believe the OIG should resolve the inconsistencies between its and EPA’s policy on public access to audit reports. The OIG agrees, and it plans to resolve the inconsistencies between the two policies.

#### Report Timeliness

The standard requires that reports be issued on or before the dates specified by law, regulation, or other special arrangement. They should also be issued promptly to make the information available for timely use by management and legislative officials.

The OIG satisfactorily complies with this standard. Of 20 sampled audits, 9 had issue dates specified by law, regulation, or other special arrangement, and all were issued on or before the specified date.

We also assessed compliance with this standard by contacting the audit report’s principal management user to inquire whether the report was issued at an opportune time. Of the 20 sampled reports, the users believed 18 were issued in time to be useful. Of the other two reports, one was issued 8 years after the start of audit work. The other report, dealing with year-end spending, was issued too late to implement the recommendations for the next fiscal year cycle.

#### Report Content

The standard requires that audit reports include statements on audit scope and objectives, generally accepted government auditing standards, internal controls, comments of agency officials, recommendations for corrective actions, and other items.

<sup>9</sup>These requests require the public to submit a formal written request for information. Because the requested information cannot be released prior to review by a designated EPA official, release of the requested information can be delayed.

The OIG satisfactorily complies with this standard. All 20 sampled audit reports included recommendations for improving identified problems. Also, 7 sampled audits had noteworthy accomplishments, and all the audit reports contained statements discussing these accomplishments. In addition, 18 of 20 sampled audit reports included views of pertinent officials. For the other 2 audits—a desk audit and an allegation review—it was not appropriate to seek comments.

When conducting desk audits, however, the OIG did not always include all the statements required for audit reports. Our evaluation of these reports showed

- four reports did not include statements that the audits were made in accordance with generally accepted government auditing standards or statements detailing where the audit deviated from these standards, and
- three reports contained inadequate disclosures concerning audit scope and objectives.

Reports with missing scope and objectives, or without statements on generally accepted government auditing standards, convey to the reader that a full scope audit was performed and that it fully satisfied all audit standards. We believe that if it is not clear as to what was done, audit report readers could be misled. In the desk audit reports missing this clarifying language, the OIG staff also failed to meet other standards. As previously discussed, the OIG concluded that desk audits were not, in fact, audits, and it is planning corrective action.

Because none of our 20 sampled audits involved privileged or confidential information, we were unable to judge compliance with this aspect of the standard.

## Report Presentation

The standard requires that audit reports be objective, clear, concise, accurate, complete, fair, and convincing. The OIG satisfactorily complies with this element of the standard. In 19 of 20 sampled audits, OIG audit reports presented information in a manner that was fair, convincing, objective, and clear. The one audit, which was not clear and convincing, was a desk audit and extremely limited in scope. In judging whether an audit report was convincing, we based our assessment only on the information contained in the report. As noted earlier, in some cases, we did not find convincing evidence in the work papers to document factual statements in the reports.

To give report users an understanding of what and how the auditors performed the assignment and to provide a basis for reader judgment on auditor objectivity and the fairness of reported findings, conclusions, and recommendations, audit reports should contain a clear description of the audit scope and methodology used to test internal controls, transactions, and compliance with laws. The standard requires that audit reports identify limitations or qualifications to the scope of the work performed. As previously discussed, 3 of 20 sampled audit reports did not include adequate disclosures of the audit scope.

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## Audit Follow-Up

Generally accepted government auditing standards require that auditors follow up on findings and recommendations from previous audits to determine if the auditee has taken appropriate corrective actions. Follow-up on prior audit findings and recommendations is important because it requires that auditors consider deficiencies or weaknesses that are known to exist at the auditee organization. By not including follow-up on prior findings and recommendations on subsequent audits of the auditee, auditors may duplicate work previously performed or may fail to consider significant work steps that could affect overall conclusions on the current assignment.

The OIG satisfactorily complied with the audit follow-up standard. In 17 sampled cases, our review of the OIG work papers and discussions with the auditors disclosed that the auditors had identified previous audits performed and had determined whether appropriate corrective action had been taken. In 2 cases, we determined that the auditors had not identified previous audit reports. In the remaining case, we could not obtain sufficient information to determine whether or not the auditor had identified previous audits.

While the OIG satisfactorily complies with the audit follow-up standard, we believe that there is another important aspect of audit follow-up that the OIG should institute— tracking and ascertaining, on a systematic basis, the audit resolution of OIG recommendations. We believe that audit follow-up can be particularly important to OIG work since it will provide feedback on the value of OIG audit work performed and the validity of its recommendations. Without following up on its recommendations, the OIG cannot measure the impact its recommendations have on EPA programs. In addition to providing closure to its audit work and increasing the likelihood that agency managers will take prompt responsive actions to its recommendations, audit follow-up gives the OIG the opportunity to provide the Congress with valuable information in its oversight of EPA

programs to assure that the funds appropriated are used in the taxpayers' best interests. Further, audit follow-up will allow the OIG to plan additional audit work in areas where corrective actions have not been taken.

EPA management recognizes the importance of audit follow-up. The inspector general section of the Environmental Protection Agency Manual states that the OIG is responsible for determining that audit report findings and recommendations are acted upon. This includes reviewing the adequacy of action taken by the agency to correct reported deficiencies and problems. In addition, the Comptroller General's Standards for Internal Controls in the Federal Government recognizes the importance of audit follow-up. The standards require auditors to follow up on audit findings and recommendations to ascertain that resolution has been achieved.

The OIG, however, does not have an audit follow-up system to systematically track the audit resolution of its recommendations. The current follow-up system is an automated one that gathers data and tracks audit activities to the development of an action plan by management and an agreement on activities to be taken. The current system does not track activities beyond the action plan to ensure that recommendations are implemented. OIG officials told us that responsibility for ensuring implementation rests with the agency follow-up officials, who are part of EPA management and separate from the OIG. The OIG follows up on corrective actions only if and when a follow-up audit is conducted. We believe, however, that the OIG should track and ascertain on a systematic basis the audit resolution of all OIG recommendations, and not just those included in a follow-up audit.

Agency follow-up officials are currently implementing a new audit follow-up system that will monitor and track corrective actions taken to implement audit recommendations. This new system is called the "Corrective Action Tracking System," and it will provide feedback, in the form of status reports, to OIG officials on corrective actions taken.

In his July 25, 1986, response to our draft report, the IG stated that his office was arranging to receive reports from the new "Corrective Action Tracking System." The IG stated that the reports will be used to monitor progress on audit resolution. In addition, he said that the OIG will periodically test the reliability of the tracking system.

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## Quality Assurance

The PCIE Interim Quality Standards for Federal Offices of Inspector General requires that the OIG establish and maintain a quality-assurance program. The standards define quality assurance as an evaluative effort conducted by reviewers, who are external to the units being reviewed, to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively.

The OIG satisfactorily complies with the aspects of the standard (1) calling for the establishment of a quality-assurance program and (2) requiring the effort to be conducted by individuals external to the units being reviewed. We did not test the extent to which the quality-assurance program ensures that the work performed by the audit function adheres to established OIG procedures, meets performance standards, and is carried out economically, efficiently, and effectively.

In January 1984, the IG established a management assessment review (MAR) program which determines (1) operational and administrative effectiveness and efficiency and (2) the degree of compliance with OIG policies and procedures. The MAR function, which is located in the Office of Management and Technical Assessment, is staffed by a core team of three to four headquarters auditors. A field auditor and an investigator, who are not located in the unit under review, are assigned to the team when a MAR is conducted. A MAR is normally conducted annually on each divisional field office.

During fiscal years 1984 and 1985, a MAR was conducted on each of the six divisional field offices, and a report was issued on each review. We reviewed the 12 reports, which examined areas such as supervisory review of audit work papers and reports, auditor training, follow-up on open audit findings, and contract monitoring. We found that the reviews objectively evaluated the offices. Also, we determined the status of each recommendation made. Of 139 recommendations, 91 had been implemented within 60 days of the review's report date. Of the remaining 48, 18 were implemented within 90 days of the review's report date and 7 were implemented within 6 months. The other 23 recommendations were not implemented because OIG audit officials did not agree with them. We determined that the individuals conducting the reviews were not directly involved in the activity or unit being reviewed.

## Conclusions and Recommendations

The OIG satisfactorily complied with 10 of the 12 categories of generally accepted government auditing standards and other professional standards in the areas which we tested. The categories included staff qualifications; independence; annual audit planning; individual job planning; supervision; legal and regulatory requirements; fraud, abuse, and illegal acts; reporting; audit follow-up; and quality assurance. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the standards in the areas of internal controls and evidence. While the OIG did not satisfactorily comply with the professional audit standards in some instances, we did not identify any cases where there was cause to question the OIG's findings in the audits we reviewed.

To assist the OIG in satisfactorily complying with certain aspects of the audit standards, we recommend that the inspector general

- develop and implement policies and procedures clarifying the applicability of audit standards for desk audits;
- require the use of OIG checklists to provide greater assurance that audit supervisors document and retain supervisory reviews of all work products;
- develop and implement policies and procedures outlining when an identification and evaluation study of internal control is required;
- develop and implement policies and procedures requiring the reporting of the scope of internal control work;
- develop and implement a quality-assurance mechanism, such as referencing, to help ensure the adequacy of evidence; and
- resolve the inconsistencies between OIG and EPA policy on public access to audit reports.

To increase the discipline for sound financial management, enhance oversight, and help ensure financial integrity, we recommend that the inspector general expand his current financial program by performing additional audits which examine financial reports and the reliability of accounting systems which produce the reports. Eventually, more OIG audits should be undertaken with the objective of expressing an opinion on the accuracy and adequacy of EPA's financial reports.

To enhance its audit follow-up efforts, we recommend that the inspector general (1) develop and implement policies and procedures for tracking and ascertaining, on a systematic basis, the audit resolution of OIG recommendations and (2) coordinate with agency follow-up officials to

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obtain feedback on the status of actions taken to implement OIG recommendations.

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## Agency Comments and Our Evaluation

In his July 25, 1986, response to our draft report, the inspector general stated that he agreed with most of our findings and recommendations. The inspector general stated that the results of our audit work and report will help the OIG achieve full compliance with the standards and a greater degree of effectiveness. According to the inspector general, in most cases, corrective actions are either presently underway in areas requiring improvements or have been completed.

The inspector general, however, did not agree with one of our recommendations. The inspector general believes that the OIG's planning process provides appropriate consideration of the priority given to conducting financial statement audits. We believe that the OIG should expand its financial audit program. As we noted in our February 1985 report, Managing the Cost of Government: Building An Effective Financial Management Structure (GAO/AFMD-85-35 and 35A), financial auditing introduces discipline to the financial reporting process. Financial audits ensure that the information provided in financial statements is useful and reliable by determining whether they summarize the transactions that have occurred within the entity's reporting period. Financial audits also ensure that underlying data and records used for a multitude of management and external purposes contain accurate and consistent data. Disciplined accounting systems will provide the most reliable financial statement information. Financial statement audits will evaluate and enforce that discipline by testing the entity's consistency in applying accounting, reporting, internal control, and other applicable standards. The benefits of such audited financial statements will be to provide EPA management, OMB and other federal policymakers, and the Congress with relevant information needed to manage the agency and to inform the public with reliable information on the financial position of the agency. (See appendix III.)



# Assessment of the Investigation Function

The Inspector General Act of 1978 provides that the IG has the duty to, among other things, conduct investigations relating to programs and operations. Standards to guide the conduct of investigations and help ensure their quality have recently been adopted.

In 1984, the President's Council on Integrity and Efficiency (PCIE) issued the Interim Quality Standards for Federal Offices of Inspector General, which applies to all OIG functions. In 1985, the PCIE adopted the Interim Professional Standards for Investigations, which supplements the PCIE quality standards in guiding the operations of an OIG investigation function. We used the PCIE standards in assessing OIG compliance. They are consistent with the applicable Comptroller General's audit standards (staff qualifications, independence, etc.) and are tailored to the investigation function.

We grouped the two sets of PCIE standards into 11 categories which we used for assessing the EPA Office of Inspector General investigation function. (See appendix I.) In assessing the OIG's compliance with the 11 categories of standards, we evaluated OIG quality-control systems; reviewed 20 investigation cases, which included reports and case files; and tested the adequacy of certain OIG procedures designed to ensure quality in investigative work. We also sent a questionnaire to OIG investigators to solicit their views on subjects related to our assessment; 75 percent of those contacted responded.

The OIG satisfactorily complied with 10 of the 11 categories of professional standards for investigations in the areas which we tested. These categories included staff qualifications, independence, screening allegations, coordination, directing and controlling, due professional care, preserving confidentiality, reporting, information management, and quality assurance. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the investigation standard for planning. Table 3.1 summarizes the OIG's compliance with each standard.

**Table 3.1: Summary of OIG Compliance With Investigation Standards**

<b>Standard</b>	<b>Compliance</b>
Staff qualifications	The OIG satisfactorily complies with this standard.
Independence	The OIG satisfactorily complies with this standard.
Planning	The OIG does not satisfactorily comply with the organizational planning aspect of this standard. The OIG does satisfactorily comply with the individual job planning aspect of this standard.
Screening allegations	The OIG satisfactorily complies with this standard.
Coordination	The OIG satisfactorily complies with this standard.
Directing and controlling	The OIG satisfactorily complies with this standard.
Due professional care	The OIG satisfactorily complies with this standard.
Preserving confidentiality	The OIG satisfactorily complies with this standard.
Reporting	The OIG satisfactorily complies with this standard.
Information management	The OIG satisfactorily complies with this standard.
Quality assurance	The OIG satisfactorily complies with this standard with regard to the establishment of a quality-assurance program.

## Compliance With Standards

The following sections discuss our assessment of the OIG's compliance with investigation standards.

### Staff Qualifications

The standard requires that the investigative staff must collectively possess professional proficiency to conduct investigations. The standard points out that every investigator does not need to be skilled in all investigation techniques, but the OIG should employ investigators who can collectively carry out the OIG investigative mission. The standard places upon the OIG the responsibility to employ qualified people, provide training, and evaluate performance. The standard recognizes that certain federal laws and regulations govern staff qualifications.

The OIG satisfactorily complies with this standard. The OIG only employs investigators that meet or exceed the minimum Office of Personnel Management (OPM) education and/or experience requirements for the

GS-1811 criminal investigator job series. These requirements include general experience, such as investigating insurance claims, and specialized experience, such as investigating criminal cases. The amount of required experience increases as the civil service grade level increases. Also, certain education achievements can substitute for experience requirements. For example, a master's degree in criminology satisfies the requirements for a GS-9 criminal investigator.

We verified that the EPA personnel office properly classified OIG investigators. In a sample review of 45 investigators' personnel records, including those investigators who were assigned to our sampled investigations and were still with the OIG, we confirmed that each investigator's Personal Qualifications Statement—Standard Form 171—and other supporting documentation met OPM's GS-1811 criminal investigator classification standards. Of 45 investigators, 44 had doctorate, master's, or bachelor's degrees in such areas as criminology, criminal justice, law, accounting, or business administration. Also, over half of the investigators had prior law enforcement or investigative experience with other organizations, including inspector general offices.

OIG investigators received job-related training after they were hired. In a sample review of 45 investigators' training records, including those investigators who were assigned to our sampled investigations, we found that 44 investigators attended one or more training courses during the 2-year period ending September 30, 1985. For example, the investigators had taken such courses as basic criminal investigator training and white-collar crime, which are taught by the Federal Law Enforcement Training Center in Glynco, Georgia.

Many of the 40 investigators responding to our questionnaire felt that OIG training had not adequately prepared them to perform their work. Only 50 percent thought that training in the last 2 years was adequate or generally adequate, 33 percent thought the training was generally inadequate, and 13 percent thought it was inadequate. Three percent were undecided. (Totals will not equal 100 percent due to rounding.)

The OIG's fiscal year 1985 management assessment reviews (MARS) of the divisional field offices identified the need for additional training. According to four of five MARS, investigators should be taking courses in white-collar crime, contract and procurement fraud, supervision, computer fraud, fraud prevention, and report writing. OIG management officials and divisional inspectors general told us that meeting the

investigators' training needs has been a problem. They stated that limited travel funds have handicapped the training program. To help alleviate the training backlog, the OIG sponsored a week-long training program for all investigators in August 1985. The program covered such topics as report writing, computers, document analyses, procurement fraud, and Superfund investigations. In addition, the OIG has encouraged its investigators to take training seminars offered by the Association of Federal Investigators.

In July 1985, the OIG developed a training profile which sets out the mandatory, recommended, and optional courses the investigators at each grade level should take. The training profile, however, has not been fully used largely because the investigators' training records are not completely accurate or current. OIG officials told us that as of April 1986, the training records were still being verified and updated. In his July 25, 1986, response to our draft report, the inspector general stated that the computerized training profile was fully operational with complete, accurate, and timely information. With such information, the OIG will be able to (1) establish meaningful training priorities and (2) implement effective training strategies.

The OIG also annually prepares performance appraisals on its investigators. They are rated on a number of job dimensions as outstanding, exceeds expectations, satisfactory, minimally satisfactory, or unsatisfactory. We reviewed the appraisals given to 43 investigators during fiscal years 1984 and 1985, including those investigators who were assigned to our sampled investigations. We found that the 43 investigators were rated satisfactory or higher, and their appraisals did not reflect the need for training or coaching to improve their performance. The EPA personnel regulations require supervisors who rate employees below satisfactory to prepare a written individual development plan to help employees bring their job performance to an acceptable level within a reasonable time.

Of the investigators responding to our questionnaire, 72 percent thought that during the past 2 years, their supervisors or other responsible officials had discussed the performance appraisals with them in sufficient detail to provide a clear understanding of strengths and/or needed improvements in their work. However, 17 percent did not think the discussions were sufficient, and 10 percent were undecided. (Totals will not equal 100 percent due to rounding.)

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## Independence

The standard requires that the OIG and its individual investigators must (1) be free, both in fact and appearance, from impairments to independence, (2) be organizationally independent, and (3) maintain an independent attitude. The standard makes agencies, investigative organizations, and investigators responsible for maintaining independence, so that judgments used in obtaining evidence, conducting interviews, and making recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Similar to audit standards, the standard recognizes three general classes of impairments: organizational, external, and personal.

The OIG satisfactorily complies with this standard. The organizational placement of the IG, directly reporting to the Administrator of EPA as prescribed by the Inspector General Act of 1978, locates the investigation unit outside the staff or line management of EPA organizations and people who might be subject to investigations. For example, the divisional field offices for investigations report to the assistant inspector general for investigations, not to an EPA regional administrator. Further, EPA program officials have no authority over how an investigation is conducted.

With regard to the investigation function being free of external impairments to independence, we did not find any evidence of external interference in the OIG records of our 20 sampled investigations or in talking with investigators and managers. Also, we did not identify any instances where an investigator's personal independence had been impaired. Government personnel regulations require OIG investigators at the GM-13 level and above to file an annual financial disclosure statement; new employees hired at these levels must file a statement within 30 days of assuming duties. Further, a designated OIG management official must review the statements. We found that all OIG investigators required to submit the financial disclosure statements for 1984 and 1985 did so. We also found that each statement had been reviewed for completeness and possible areas of conflict and signed by the designated OIG management official—the deputy IG. We reviewed all of the financial disclosure statements, and we did not identify any impairments to personal independence. Also, through discussions with assigned staff, we did not find any personal impairments in our 20 sampled investigations. Further, the investigators and managers we interviewed stated that they were unaware of any instances where an investigator's personal independence had been impaired.

In our 20 sampled investigations, however, we found that 4 were conducted by GS-12 investigators who were not required to submit financial disclosure statements. Since these investigators work with a great degree of independence in gathering evidence to prove or disprove violations of federal statutes, we believe it is important that the OIG also be aware of their financial interests. OIG officials told us in April 1986 that they were changing the requirements to have all GS-12 staff submit financial disclosure statements. In his July 25, 1986, response to our draft report, the inspector general stated that all GS-12 investigators are now required to submit annual financial disclosure statements.

Under the OIG's current system, designated OIG staff as well as the deputy IG or IG review the investigators' financial disclosure statements to identify any potential conflicts. If a conflict is identified, it is resolved through negotiations between the reviewing officials and the individual employee. Although OIG procedures require copies of these negotiated agreements to be forwarded to the employee's supervisor, we found instances where this had not been done.

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## Planning

The standard requires that the OIG maintain a planning system to determine programs and operations where investigations are needed, establish priorities for the work, and ensure that investigations are conducted efficiently and effectively. The planning standard makes the OIG responsible for (1) organizational planning, which sets priorities for the investigation function's work, and (2) individual case planning, which requires the preparation of an investigation plan for each case.

The OIG does not satisfactorily comply with the organizational planning aspect of this standard. The OIG's investigation function does not prepare a written annual plan which discusses investigative strategies and priorities, budget and staff resources, and expected accomplishments, benefits, and results. Rather, it sets out general goals for the fiscal year. (See appendix II.) The OIG goals and objectives serve to (1) reemphasize EPA programs needing investigative attention, (2) reaffirm the OIG's basic management philosophy, and (3) identify policies, procedures, and operations that OIG managers will examine during the next 12 months. The goals do not establish investigative priorities (for example, bid-rigging of sewer rehabilitation contracts, possible contractor connections with organized crime, Superfund procurement fraud, etc.), estimate staff resources needed to carry out planned efforts, and address major ongoing investigations. Further, the goals are not expressed for each investigative field office and do not specify how each field office should

contribute to attaining the goals. Also, there is no explanation on how the goals relate to OIG audit priorities and what the OIG would like to accomplish with its investigations in each area.

OIG management officials stated that while they do not prepare an annual plan, the goals that they establish include investigative priorities as well as organization and management goals. They told us that their investigative priorities remain relatively constant from year to year. In addition, their annual budget request identifies staffing needs and anticipated levels of investigative effort. Also, the headquarters and field managers' individual job performance agreements include targets for indictments, case resolutions, etc. Given the limited number of programs, the size of their investigative staff, and the number of active cases, OIG officials told us in April 1986 that they believe this gives them the level of planning needed in a predominantly reactive environment.

We believe that the OIG's investigative goals should be expressed in an overall annual written plan which explains how they relate to OIG strategies for program improvements, how each investigative field office would contribute to attaining the goals, and why the goals are important. The goals' importance could be expressed in terms of expected accomplishments, benefits, or results, such as reducing the incidence of fraud in specific programs or increasing the dollar amount of actions resulting from OIG work. In our opinion, an annual plan would be very useful even if the plan changes during the year because of unpredicted events. The annual plan would provide the basis for justifying OIG's budget and staffing requests, setting priorities for effective resource allocation, and evaluating the relative costs of each investigative effort. Including all major investigative activities in the annual plan would provide similar benefits.

In his July 25, 1986, response to our draft report, the IG stated that if the OIG is to effectively meet the ever-increasing challenges associated with its investigative activities, additional planning will be required and the OIG has committed itself to doing it. Starting this year, the OIG plans to consolidate its various planning documents into a single planning instrument.

Concerning individual case planning, the OIG does satisfactorily comply with this aspect of the planning standard. We considered an adequate plan to be any document stating what tasks OIG investigators would perform in conducting an investigation. Of 20 sampled investigations reviewed, only 4 had adequate plans, while 16 did not have any plans.

There was no OIG requirement to prepare a written investigation plan at the time most of our sampled investigations were opened. Since July 1984, there has been such an OIG requirement. Our December 1985 review of 22 randomly selected open investigations in six field offices, which were begun after July 1984, showed that investigation plans were prepared for every investigation. In addition, supervisors were providing input when needed, and they were monitoring the investigators' adherence to or modification of the investigation plans. Because of these improvements, we concluded that the OIG was now satisfactorily complying with the individual case planning aspect of the planning standard.

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## Screening Allegations

The standard requires that the OIG establish and maintain a well-publicized system for receiving, controlling, and screening allegations from agency employees and other interested persons. Also, the standard requires that allegations be promptly screened for appropriate disposition.

The OIG satisfactorily complies with this standard. However, we noted that some hotline allegations were not screened and forwarded to appropriate officials within OIG prescribed time frames.

The OIG's Office of Management and Technical Assessment has the responsibility to screen hotline allegations. Since 1982, the OIG has received allegations by mail and telephone through its hotline operation. The OIG publicizes the hotline through posters, bulletins, notices on employee payroll statements and on the back cover of OIG semiannual reports to the Congress, and a listing in the agency telephone directory.

In an earlier report,<sup>10</sup> we recommended that the IG initiate quality-control procedures to ensure that hotline allegations were appropriately developed, which the IG did. The OIG uses an experienced investigator to analyze the allegations. The assistant inspector general for management and technical assistance then forwards them to appropriate OIG audit or investigative personnel, or to EPA program officials, for necessary action. An OIG policy requires that allegations be screened and forwarded within 3 working days after receipt. The OIG also tracks the allegations until responses are obtained which show that necessary reviews were performed and appropriate actions were taken.

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<sup>10</sup>Improvements Needed in EPA's Inspector General Operations (GAO/AFMD-84-13, October 21, 1983).

During fiscal year 1985, the OIG received 83 hotline calls which resulted in the opening of allegation cases. A judgmental sample of 48 cases showed that the OIG hotline staff screened and forwarded these allegations to appropriate officials in time periods ranging from the day the allegation was received to 20 working days after receipt. Of the 48 allegations, the records show that the OIG hotline staff screened and forwarded 19 allegations to appropriate officials within 3 working days after receipt and administratively closed 11 cases, primarily because of insufficient evidence. For the remaining 18 allegations, 11 were screened and forwarded within 4 to 5 days, 5 within 7 to 9 days, and 2 within 13 to 20 days. An OIG official told us that supervisory reviews of referral documents and typing delays, due to higher priority work, were the primary reasons why some allegations were not screened and forwarded to appropriate officials within the 3-day period. It did not appear to us that the delays had any impact on the final resolution of the cases. Of 37 allegations, excluding 11 that were administratively closed, we found that 25 had been appropriately handled and 12 were still pending as of November 1985.

After weighing the nature, relative significance, and frequency of instances of noncompliance with the OIG's prescribed time frame of screening and forwarding allegations to appropriate officials within 3 working days, we concluded that the OIG was in satisfactory compliance from an overall perspective. However, increased management attention could ensure better compliance with the OIG time frame requirement for screening and forwarding allegations.

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## Coordination

The standard requires that the OIG coordinate its investigations with other OIG activities and with other government organizations to ensure effective and efficient use of resources. The OIG should take steps to minimize duplicative work. Coordination should continue after investigations are completed to ensure that necessary action is taken.

The OIG satisfactorily complies with this standard. Internally, the OIG has a system for referring matters to EPA officials and monitoring the way they resolve the matters. Referred matters include such issues as hotline complaints and investigative reports requiring administrative action. The OIG coordinates its activities with EPA's National Enforcement Investigation Center, which is responsible for investigating criminal violations of environmental laws by the public. In addition, the OIG coordinates investigative work with audits and, if appropriate, conducts

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joint cases. Externally, the OIG coordinates investigative work and conducts some joint investigations with other organizations, such as the Federal Bureau of Investigation, Internal Revenue Service, Postal Inspection Service, and other OIGs. Also, the OIG maintains a case monitoring system to track investigations conducted by other agencies that may involve EPA employees or grantees. Of 20 investigations that we reviewed, 17 were satisfactorily coordinated with other OIG functions and investigative organizations. The remaining three investigations did not require internal or external coordination.

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### Directing and Controlling

The standard requires that the IG and members of the staff direct and control OIG operations to ensure that all activities are adequately supervised, performance is consistent with professional standards, and periodic internal assessments are made of OIG activities and accomplishments.

The OIG satisfactorily complies with this standard. When planning investigations, divisional inspectors general provide their staffs assistance or advice in setting the investigation scope, developing investigation plans, and determining investigative techniques. During the fieldwork phase of investigations, the divisional inspectors general periodically review the investigators' work. The amount of review is contingent upon the investigation's complexity and the investigators' experience levels. Also, the divisional inspectors general review all investigation reports for accuracy and completeness prior to sending them to the assistant inspector general for investigations. During the course of investigations, the divisional inspectors general provide on-the-job training to investigative staff.

In our 20 sampled investigations, we found that OIG divisional inspectors general were properly supervising their investigative staffs and providing them with on-the-job training. However, 16 of 20 sampled investigations showed that the divisional inspectors general did not document their supervisory reviews. At the time most of our sampled cases were opened, there was no OIG requirement to document supervisory reviews. Since July 1984, there has been such an OIG requirement. Our review of 22 randomly selected open investigations in six field offices during December 1985 showed that supervisory reviews were being documented for every investigation, thus ensuring that all work conformed with standards.

In our questionnaire, we asked OIG investigators about several aspects of supervision. Most investigators responded that supervision was adequate or more than adequate in such areas as planning the assignment (76 percent), conducting the investigation (76 percent), ensuring the adequacy of the evidence collected (90 percent), and ensuring that the work complies with professional standards (87 percent).

The OIG has a two-tiered system for assessing its investigation function. Primary responsibility belongs to the assistant and deputy assistant inspectors general for investigations. They set performance standards for each divisional field office on an annual basis; monitor staff performance, analyze investigation time, and review accomplishments through management accountability reports; evaluate the need to reorganize or improve investigative operations based on expected and actual performance data; and strive to develop innovative approaches to detect fraud, waste, and abuse. Secondary responsibility rests with the divisional inspectors general to assess their operations' training needs, resource allocations, and alternative investigative approaches.

## Due Professional Care

The standard requires that investigators perform their work with "due professional care" and in a timely, efficient, thorough, and legal manner. Although the term "due professional care" is not defined, the standards require the investigation function to

- gather and report evidence in an unbiased and objective manner in an effort to develop all facts bearing on an issue;
- conduct investigations with due respect for the rights and privacy of those involved;
- retain, at least until final disposition of the case, investigators' interview notes that are prepared in a criminal investigation; and
- conduct and report on investigations promptly.

The OIG satisfactorily complies with this standard. In 17 of 20 sampled investigations, the investigators adequately gathered and reported evidence in an unbiased and objective manner. To make our judgments, we reviewed OIG case records and interviewed OIG officials to determine if investigators followed logical and reasonable leads to collect information in deciding the merits of allegations.

In two cases, however, the investigators failed to develop all the facts bearing on the allegations. In the first case, the investigation was to determine whether a false claim had been filed. The investigator failed

to interview key officials or technical experts or to provide relevant cost and performance data. As a result, the allegation was never resolved, and the case was closed after nearly 4 years of inaction. OIG officials told us that an OIG consulting engineer presented an oral report that, while supporting the allegation, advised of the difficulty in proving a false claim had been filed. However, a written report was not prepared. OIG officials stated that the case file would be documented accordingly.

In the second case, the OIG began an investigation into whether a former EPA project officer had participated in a contract in which he had a prospective financial interest. The former EPA project officer for the contract became a subcontractor of the firm awarded the contract after leaving EPA. An OIG investigative report on the contract states that while the former project officer had discussions with the firm about beginning a consulting business and renting office space, an EPA ethics officer believed that negotiations for office space gave the appearance of, but did not constitute, a conflict of interest. However, the report does not indicate whether the former employee's actions as project officer after the time he decided to leave EPA were investigated. The decision not to investigate further was precipitated by a bid protest on the award of a subsequent contract to the firm. The bid protest alleged, among other things, that the award violated conflict of interest laws because the former EPA project officer helped prepare the firm's proposal and was to be a subcontractor. The bid protest was denied, in part, because preaward and postaward reviews by EPA officials concluded that the firm did not receive any inside information or favoritism from the former project officer's involvement. OIG officials believe that the ethics officer's opinion and the dismissal of the bid protest on the subsequent contract applied to the conflict of interest question on the first contract.

We could not sufficiently evaluate the remaining case in our sample for this aspect of the standard. The case contained grand jury information, which we were legally precluded from reviewing.

In two other areas of the due-professional-care standard, the OIG was also in satisfactory compliance. In 19 of 20 sampled investigations, the investigators conducted their work in a fair and impartial manner. We could not sufficiently evaluate one case in the sample for this aspect of the standard because it contained grand jury material, which we were legally precluded from reviewing. In addition, 18 sampled investigations were conducted with due respect for the rights and privacy of those involved. We did not evaluate the other two cases in the sample. One case contained grand jury material which we could not review, and the

other case was built through the examination of public information which did not involve rights and privacy consideration. To make our judgments of these two aspects of the standard, we reviewed OIG case records.

With respect to that aspect of the standard requiring the retention of an investigator's interview notes in a criminal investigation until final disposition of the case, the OIG requires retention of evidence, records, and interview notes until all criminal and/or administrative action has been taken and appeals, if any, are exhausted. When these conditions have been met, original evidence and records are returned to the persons from whom they were obtained, and all other evidence, records, and interview notes that are not part of the report of investigation are destroyed when the case is closed. While these procedures comply with the standard, they did limit our ability to determine the thoroughness of a closed investigation. In 17 of 20 sampled investigations, there were no interview notes in the case files. The other three investigations with interview notes complied with OIG requirements.

With respect to the timeliness aspect of the due-professional-care standard, 14 of 20 sampled investigations did not meet the OIG's timeliness requirement. Our analysis revealed, however, that 11 investigations were opened before the current IG took office, and none of them met the OIG's timeliness requirement. For the remaining 9 investigations, which were opened after the IG assumed his responsibilities, we found that 6 met the timeliness requirement and 3 did not.

To determine whether investigations were conducted promptly under the current IG, we randomly selected 20 additional cases which were closed between April 1, 1985, and September 30, 1985. Of 8 cases opened before the IG took office, 6 did not meet the timeliness requirement. However, only 3 of 12 cases opened after the IG was in office did not meet the requirements. In summary, our 40-case sample showed that before the current IG's tenure, only 2 of 19 investigations were conducted promptly, while 15 of 21 investigations have been timely since the current IG took office. After weighing the nature, relative significance, and frequency of instances of noncompliance for those cases opened after the current IG took office, we concluded that the OIG was in satisfactory compliance with the timeliness aspect of the due-professional-care standard.

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## Preserving Confidentiality

The standard requires that the OIG establish and follow procedures for safeguarding the identity of confidential sources and protecting confidential information. Information furnished to the OIG by an employee shall not be disclosed without the employee's consent unless the IG determines the disclosure is unavoidable. The OIG must establish appropriate safeguards for records containing the identity of confidential sources. The OIG must also establish procedures for releasing agency records to the public within the framework of applicable laws and regulations. The standard does not specify what safeguards an OIG should have to protect the identities of confidential sources.

The OIG satisfactorily complies with this standard. The OIG has established a system for safeguarding the identities of confidential sources. It requires OIG staff to (1) obtain a confidential source number, which is used as a control mechanism, from the deputy assistant inspector general for investigations, who maintains control of all confidential sources, and (2) remove all identifying documents or descriptions (for example, he/she pronouns, places of employment, or job titles) from case records and investigation reports, which could identify the confidential sources. In addition, the OIG system requires that case records be screened and all confidential information removed prior to their release under the Freedom of Information Act (5 U.S.C. 552) and Privacy Act (5 U.S.C. 552a).

In our 20 sampled investigations, which included 4 with confidential sources, we did not find any indications that confidential source identities or information had been improperly disclosed outside the OIG. In a separate sample of five cases from the OIG's confidential source file, we found that in all cases the investigators followed OIG procedures to safeguard the sources' identities throughout their investigations. Further, the reports of investigation contained no information that could be used to identify the confidential sources.

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## Reporting

The standard requires that the OIG keep agency management and the Congress fully and currently informed of appropriate aspects of OIG operations and findings. Also, reports prepared for individual investigation cases should discuss all relevant issues and be accurate, objective, timely, and well-organized. Timeliness is another element under the due-professional-care standard, and we have reported our observations in that category instead of this one.

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The OIG satisfactorily complies with this standard. The Administrator and deputy administrator of EPA are kept apprised of OIG activities through monthly meetings with the inspector general. EPA program officials are alerted to possible problems in their areas through (1) OIG management implication reports, which identify systemic weaknesses and offer recommendations for corrective action, and (2) notices of scheduled investigations, which advise of upcoming investigations. The Congress is kept informed through the OIG's semiannual reports and, when requested, congressional testimony and meetings with committee staff.

We examined the reports for our 20 sampled investigations. While we did have some concern over the thoroughness of 2 sampled investigations, which was discussed earlier under the due-professional-care standard, we found that all the reports were concise, complete, and consistent with information available in the case files; objective in presentations of relevant information; free of jargon; and understandable. We commend the OIG's trend, which was apparent in more recently issued investigation reports, of including interview transcripts and supporting documentation in the reports.

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## Information Management

The standard requires that the OIG store the results of investigations in a manner which allows for effective retrieval, cross-referencing, and analysis. According to the standard, an effective information management system enhances an OIG's ability to conduct pattern and trend analysis, fulfill its mandate of detection and prevention, and make informed judgments relative to resource allocations, training needs, and investigation program development.

The OIG satisfactorily complies with this standard. For each of the 20 sampled investigations, there was an official case file, which is maintained in Washington, D.C., containing pertinent records, and each case file was filed by case number for quick retrieval. Also, essential case information, such as case number, opening and closing dates, and investigation time, was entered into an electronic records management system. However, none of the sampled cases were cross-referenced with related cases or by case type, program affected, geographic location, and other case information data elements. An OIG official told us that cross-referencing is only used when more than one case file is opened for an allegation involving more than one subject. We believe that cross-referencing based on commonality of data elements, rather than solely by allegation, will facilitate management's trend analyses and may highlight previously unnoticed regional and/or national problems. The OIG

agrees, and it plans to initiate a policy to cross-reference common subjects between its investigation cases.

Nevertheless, the OIG's records management system does produce status reports which provide information by divisional field office on cases opened and closed, preliminary inquiries opened and closed, investigator workload, indictments, convictions, administrative actions, types of cases by major program area, aging reports on cases and preliminary inquiries, and a backlog case report. The status reports are provided to OIG headquarters personnel and the divisional inspectors general for investigation on a monthly basis and to the IG and deputy IG on a quarterly basis. While OIG officials believe their manual system has adequately served their needs, the OIG has designed and is currently implementing a computer-based management information system which will even better serve its planning and management needs.

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## Quality Assurance

The standard requires that the OIG establish and maintain a quality-assurance program. The standard defines quality assurance as an evaluative effort conducted by external reviewers to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively.

The OIG satisfactorily complies with the aspect of the standard calling for the establishment of a quality-assurance program. We did not test the extent to which the quality-assurance program ensures that the work performed by the investigation function adheres to established OIG policies and procedures, meets performance standards, and is carried out economically, efficiently, and effectively.

In an October 1983 report,<sup>11</sup> we recommended that the IG establish a quality-review process for investigations. In January 1984, the IG established a management assessment review (MAR) program, which determines operational and administrative effectiveness and efficiency as well as the degree of compliance with OIG policies and procedures. The MAR function, which is located in the Office of Management and Technical Assessment, is staffed by a core team of three to four headquarters auditors. A field auditor and an investigator, who are not located in the

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<sup>11</sup>Improvements Needed in EPA's Inspector General Operations (GAO/AFMD-84-13, October 21, 1983).

unit under review, are assigned to the team when a MAR is conducted. A MAR is usually conducted annually at each divisional field office.

During fiscal years 1984 and 1985, 11 MARS were conducted, which covered the headquarters office once and each of the five divisional field offices twice, and a report was issued on each review. We reviewed the 11 MAR reports, which examined such areas as investigative case files, case presentations to assistant U.S. attorneys, staff utilization, case management, and investigator training. We found that the reviews objectively evaluated the offices. Also, we confirmed the status of each recommendation made. Of 90 recommendations, 80 had been implemented usually within 60 days of the MAR report date. The remaining 10 recommendations were not implemented because OIG investigation officials did not agree with them. We determined that the individuals conducting the reviews were not directly involved in the activity or unit being reviewed.

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## Conclusions and Recommendations

The OIG satisfactorily complied with 10 of the 11 categories of professional standards for investigations in the areas which we tested. These categories included staff qualifications, independence, screening allegations, coordination, directing and controlling, due professional care, preserving confidentiality, reporting, information management, and quality assurance. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the investigation standard for planning. While the OIG did not satisfactorily comply with the professional standards for investigations in some instances, we did not identify any cases where there was cause to question the OIG's findings in the investigations we reviewed.

To assist the OIG in satisfactorily complying with certain aspects of the standards, we recommend that the inspector general develop an annual investigation plan which specifies the goals, objectives, or tasks to be accomplished, and the accomplishments, benefits, or results to be derived from attaining the goals.

In addition, we recommend that the inspector general establish a system for cross-referencing investigation cases.

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## Agency Comments and Our Evaluation

In his July 25, 1986, response to our draft report, the inspector general stated that he agreed with most of our findings and recommendations. The inspector general stated that the results of our audit work and

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report will help the OIG achieve full compliance with the standards and a greater degree of effectiveness. According to the inspector general, in most cases, corrective action either is presently underway in areas requiring improvements or has been completed. (See appendix III.)

# Scope and Methodology

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## Review Approach

Our quality assessment review ascertains whether an OIG is satisfactorily complying with generally accepted government auditing standards and other professional standards. Our review approach involves evaluating the organization's quality-control systems; reviewing and testing a sample of recently completed audit and investigation reports and work-paper files; and reviewing, testing, and evaluating other available evidence. Our review is a compliance evaluation. It does not evaluate the economy, efficiency, and effectiveness of OIG activities. Also, we do not redo any of the reviewed audits and investigations.

The assessment of the OIG audit work is measured against generally accepted government auditing standards, which are contained in the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, revised in 1981. The assessment of the OIG investigation function is measured against the President's Council on Integrity and Efficiency (PCIE) Interim Quality Standards for Federal Offices of Inspector General, issued in September 1984,<sup>12</sup> and the PCIE Interim Professional Standards for Investigations, adopted in April 1985 for use in conjunction with the quality standards. We also use the PCIE quality standards for evaluating annual audit planning and quality assurance in the OIG audit function. In addition, we also evaluate the OIG's annual audit planning against OMB circular A-73, "Audit of Federal Operations and Programs." For our review, we separate the respective audit and investigation standards into categories which we use for assessing the appropriate OIG function. Tables I.1 and I.2 show the categories of standards which we use.

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<sup>12</sup>The PCIE adopted these standards in final form in January 1986.

**Appendix I  
Scope and Methodology**

**Table I.1: Standards Used for Assessing OIG Audit Function**

<b>Categories</b>	<b>Comptroller General audit standards<sup>a</sup></b>
Staff qualifications	Qualifications
Independence	Independence Scope impairments
Individual job planning	Planning
Annual audit planning <sup>b</sup>	No standard
Supervision	Supervision Due professional care
Legal and regulatory requirements	Legal and regulatory requirements
Internal controls	Internal controls Auditing computer-based systems Due professional care
Evidence	Evidence Working papers Due professional care
Fraud, abuse, and illegal acts	Fraud, abuse, and illegal acts Due professional care
Reporting	Reporting
Audit follow-up	Due professional care
Quality assurance <sup>c</sup>	No standard

<sup>a</sup>Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

<sup>b</sup>We assess this category against the planning standard contained in the PCIE Interim Quality Standards for Federal Offices of Inspector General and OMB circular A-73, "Audit of Federal Operations and Programs."

<sup>c</sup>We assess this category against the quality-assurance standard contained in the PCIE Interim Quality Standards for Federal Offices of Inspector General.

**Table I.2: Standards Used for Assessing OIG Investigation Function**

Categories	PCIE quality standards <sup>a</sup>	PCIE investigation standards <sup>b</sup>
Staff qualifications	Assuring staff qualifications	Qualifications
Independence	Maintaining independence	Independence
Planning	Planning	Planning
Due professional care	No standard	Due professional care Execution
Directing and controlling	Directing and controlling	No standard
Coordination	Coordinating	No standard
Reporting	Reporting	Reporting
Preserving confidentiality	Preserving confidentiality	No standard
Screening allegations	Receiving, controlling, and screening allegations	Information management
Information management	No standard	Information management
Quality assurance	Maintaining quality assurance	No standard

<sup>a</sup>PCIE Interim Quality Standards for Federal Offices of Inspector General.

<sup>b</sup>PCIE Interim Professional Standards for Investigations.

Our review approach is essentially the same approach used in the first quality assessment review of the Department of Commerce OIG (Compliance With Professional Standards by the Commerce Inspector General, GAO/AFMD-85-57, August 12, 1985). After that review, however, we made some modifications to our basic approach in order to broaden our coverage and make our review more efficient. We revised our guidelines to include such additional steps as (1) reviewing the scope of OIG coverage of an agency, (2) reviewing financial disclosure information for possible conflicts of interest involving auditors and investigators, and (3) asking OIG report addressees' views on work quality and report timeliness. In addition, we revised our questionnaire that we used with OIG staff.

## Review of EPA Office of Inspector General

Using our review approach, as discussed previously, we performed a review of the audit and investigation functions of the EPA Office of Inspector General. In addition, we reviewed the quality-assurance and hotline operations in the OIG's Office of Management and Technical Assessment. We conducted the review at OIG (1) headquarters in Washington, D.C.; (2) divisional field offices for audit in Chicago, Illinois; New York, New York; San Francisco, California; and Washington, D.C.; and (3) divisional field offices and suboffices for investigations in Atlanta, Georgia; Boston, Massachusetts; Chicago, Illinois; Dallas, Texas; New York, New York; San Francisco, California; and Washington, D.C.

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### Preparing an Organizational Profile

Building an organizational profile was the first step in conducting our review of the EPA Office of Inspector General. We prepared a two-part profile. First, we developed an agency profile to understand the OIG's working environment. In developing this profile, we obtained such information as mission statements, budget and staffing reports, and policies and procedures relating to OIG operations.

To help us determine how the review would be conducted, we developed an OIG profile. In developing this profile, we obtained such information as mission statements, applicable laws and regulations, policies and procedures, descriptions of major functions, budget and staffing reports, listings of issued audits and closed investigations, management assessment reviews, and semiannual reports.

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### Obtaining OIG Staff Views

To help us assess the OIG's audit and investigation functions, we solicited comments from OIG professional staff about training, performance appraisals, supervision, and OIG independence. We sent a questionnaire to 177 auditors and investigators on board as of August 2, 1985. Our universe excluded OIG policymakers (IG, deputy IG, and assistant and deputy assistant IGs), professional support staff (engineers, data processing specialists, etc.), and administrative staff. We received 156 responses, or 88 percent of our universe. Respondents included 109 staff from the Office of Audit, 40 from the Office of Investigations, and 7 from the Office of Management and Technical Assessment. The responses were anonymous; thus, we were unable to verify responses or explain why they sometimes varied from our observations.

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### Reviewing Quality-Control Systems

To evaluate the adequacy of the OIG's controls for ensuring adherence with generally accepted government auditing standards and other professional standards, we reviewed the written policies and procedures for implementing the standards and the quality-control systems for ensuring adherence with the standards. If the policies and procedures and/or the quality-control systems were not documented, or not sufficiently documented, we interviewed OIG management officials to determine how they provided the OIG with assurance of adhering with generally accepted government auditing standards and other professional standards.

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## Testing Compliance With Standards

To determine the OIG's satisfactory compliance with generally accepted government auditing standards and other professional standards, we reviewed a sample of completed audit and investigation reports issued during the 6-month period from October 1, 1984, through March 31, 1985. In addition, we performed other compliance testing, as necessary, to evaluate OIG's adherence with the standards.

For the audit sample, we obtained an OIG-generated listing of 101 audits—27 internal and management audits, 36 construction grant audits, 25 Superfund audits, 11 other grant and contract audits, and 2 allegation audits—issued during our 6-month review period. We verified the list's accuracy by (1) comparing the list with a log book used to record reports issued and (2) tracing a random sample of 25 reports on the list to the actual reports maintained in OIG files. We then identified the audits conducted by each divisional field office. For the Chicago, San Francisco, and Washington, D.C., divisional field offices, we categorized the audits as large (those requiring 100 or more staff days) or small (those using fewer than 100 staff days); determined, judgmentally, the number and type (construction grant, Superfund, etc.) of audits for review; and selected 19 audits—5 internal and management audits, 5 construction grant audits, 6 Superfund audits, 2 other grant and contract audits, and 1 allegation audit—for review using random numbers. In addition, we selected one construction grant audit from the New York divisional field office because it required 860 staff days and 8 years to complete. We evaluated each selected audit against key aspects of the audit standards shown in table I.1.

For the investigation sample, we obtained an OIG-generated listing of 224 investigation cases—37 criminal investigations, 96 preliminary inquiries, 37 preappointment investigations, and 54 monitoring cases—closed during our 6-month review period. We verified the list's accuracy by comparing it to reports of case closings submitted by divisional field offices for the review period. In determining the sample universe, we eliminated the 37 preappointment investigations and the 54 monitoring cases because they did not require OIG investigators to conduct criminal investigations. For the remaining 133 cases, we identified the cases completed by each divisional field office, and we weighted the cases based on staff hours spent. For each divisional field office, we then categorized, judgmentally, the cases as small, medium, or large; determined, judgmentally, the number of cases for review; and selected 20 cases—15 criminal investigations and 5 preliminary inquiries—for review using random numbers. We evaluated each selected investigation against key aspects of the investigation standards shown in table I.2.

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In addition to these reviews, we performed other work to test the OIG's compliance with generally accepted government auditing standards, investigation standards, and other professional standards. For example, we sampled hotline calls to determine if the calls were appropriately screened. Also, we reviewed the OIG's annual audit planning process to ascertain if the OIG complied with OMB circular A-73, "Audit of Federal Operations and Programs," and PCIE quality standards.

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### **Assessing Compliance**

The final step in conducting our review of the EPA Office of Inspector General involved drawing conclusions as to whether the OIG was satisfactorily complying with generally accepted government auditing standards and other professional standards. To ensure consistency and fairness in the assessment process, we used a team approach. In team meetings, we reviewed, discussed, and evaluated the results of the quality-control systems review, audit and investigation reports review, questionnaires, and other compliance testing. We then made team assessments based on professional judgment. We assessed compliance on a standard-by-standard basis for the OIG audit and investigation functions. If the OIG complied with a standard in a substantial majority of situations, we considered the OIG in satisfactory compliance with the standard. However, we also considered the nature and significance of instances of noncompliance with the professional standard tested in determining satisfactory compliance.

# OIG Office of Investigations

## Fiscal Year 1985 Goals

A. Effective Case Development

1. Increase the number and quality of investigations of fraud in EPA programs. We will focus our resources on the following areas:
  - a. Sewer rehabilitation
  - b. Bid rigging
  - c. Identification of vulnerable program areas in order to initiate additional proactive projects.
  - d. Development of closer ties with key state, municipal, law enforcement, and EPA personnel.
2. OI managers will personally meet with key programmatic and Regional officials on a regular basis to discuss proactive initiatives and to provide guidance.
3. Will analyze reports to identify major problems or weaknesses uncovered during the course of investigations.
4. Will utilize precis to brief OIG and EPA management so that timely corrective action can be initiated.
5. Will thoroughly review MIR and ROI responses to assure that timely and adequate action has been taken.
6. Will consider program weaknesses to assure that investigative resources are appropriately utilized.
7. OI management will represent the OIG at professional meetings. They will demonstrate EPA leadership by assuming positions as an officer, committee chairman, or speaker at professional functions within the next fiscal year. They will participate in at least two committee projects or professional organizations.

B. Improved Accountability and Reporting of Accomplishments

1. During FY 1985 OI will: develop and implement a suspension and debarment (S&D) tracking system to assure timely disposition of cases. Improve coordination of Regional counsels, Management and Technical Assessment (MTA), Grants Administration Division (GAD), and OI in all S&D matters.

**Appendix II  
OIG Office of Investigations  
Fiscal Year 1985 Goals**

2. Develop and implement an upgraded management accountability system. Develop and maintain an improved system for measuring the accomplishments of the OI staff.
3. Provide clear, concise, and well written briefings of major accomplishments for use in briefing the Administrator and Assistant Administrator on a monthly basis. At least four precis will be utilized by the IG on a monthly basis.
4. Develop and implement an upgraded records management system (RMS).
  - a. Will assess feasibility of conversion from Lexitron RMS to mainframe computer RMS at RTP.
  - b. Revise, improve, and/or convert RMS to upgrade sophistication of management information.
5. Will establish a system for timely publication of manual changes.
6. Will establish a system for timely collection and submission of information for the semiannual report.

**C. Increased Services to the Field**

1. Will develop an OI management training and evaluation team to provide in-house training and management assistance to Division personnel.
2. Will develop systems to provide for:
  - a. Manual and OIG policy changes
  - b. Dissemination of information relative to current investigative trends and legal decisions
  - c. Systematic OI staff assessment of cases and operations
  - d. Systematic statistical feedback on Division accomplishments

**D. Personnel Security Program**

1. Will expand its security/integrity program to assure:
  - a. timely resolution of security matters;
  - b. thorough and timely investigation of allegations of official misconduct;

**Appendix II  
OIG Office of Investigations  
Fiscal Year 1985 Goals**

c. that standards of conduct briefing are given to EPA employees; and

d. that all IG personnel undergo a preemployment background investigation.

2. Will improve coordination with MTA on personnel security matters

**E. Effectively Utilizes Available Resources**

1. Above average staff will be recruited, and the total staffing level will average 100% of the established ceiling.

2. Training needs of staff will be analyzed and identified. Basic criminal investigator school, white collar crime school, and specialized fraud instruction will be provided to all staff requiring training.

3. Will utilize available microcomputers to assist in the conduct of more effective and economical investigations.

4. Will appropriately allocate travel funds among divisions on the basis of resources available. Will monitor expenditures to see that essential investigations are complete while assuring that funds are effectively used to accomplish IG goals.

5. Will monitor expenditures of training, equipment, and other funds to assure effective use of OIG resources while assuring that funds are effectively expended to fulfill high priority OIG needs.

6. Will encourage teamwork and motivate staff by encouraging open communication between all staff members and supervisors. Will resolve existing office problems and improve performance of personnel.

7. Will effectively support EEO objectives and actively seek to promote or hire minority and women employees when qualified candidates can be found. Will assure equitable treatment of and provides maximum professional development to all employees through extraordinary and innovative approaches or measures.

# Comments From the Environmental Protection Agency

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

JUL 25 1986

THE INSPECTOR GENERAL

Mr. Frederick D. Wolf  
Director, Accounting and  
Financial Management Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

We have reviewed the GAO Draft Report of the Compliance with Professional Standards by the EPA Office of Inspector General (OIG) and agree with most of the findings and recommendations. Corrective action has either been completed or is presently underway in areas requiring improvements.

The GAO Draft Report states that the OIG satisfactorily complies with 10 of 12 categories of generally accepted Government auditing standards, and 10 of 11 categories of standards used to assess the investigation function. Our response to the findings concerning the three categories not in satisfactory compliance with the standards and the recommendations follow.

1. Internal Controls - Audit Function

Discussions on this subject pointed out reporting problems with respect to this standard. It was pointed out that in several instances we had not performed internal control reviews and had failed to disclose this in our audit reports. In other instances where we had performed internal control reviews, we had failed in the report to identify the systems involved and had not given positive or negative assurance on the extent of testing or review given each system.

We agree and have changed our policies to emphasize such requirements.

2. Supervision and Evidence - Audit Function

Discussions indicated that in some instances documentation of supervisory review and workpapers needed improvement. In this regard, it was pointed out that where our staff was using the checklists and comment sheets promulgated in our manual chapters the results were excellent.

We basically agree on these matters. These are the type of findings identified in our Management Assessment Reviews. Specific corrective actions were recommended and taken as a result of these reviews.

See comment 1.

See comment 2.

It should be pointed out that the main question in this part of the review is the adequacy of OIG workpapers. As the GAO report shows, the vast majority of our workpapers had appropriate supporting documentation. The GAO report therefore showed about what our own MAR teams had previously reported that we needed some improvement in our workpapers. In response to our own findings in this matter, the OIG had already commenced corrective action before the GAO review.

**3. Planning - Investigation Function**

Discussions on this standard indicated that the investigation function does not prepare a written annual plan including strategies and priorities, budget and staff resources, and expected accomplishment, benefits, and results.

See comment 3.

We agree that we do not prepare an annual plan similar to that of the audit function which articulates specific investigative priorities. However, we do establish goals and objectives and measure our progress towards these goals quarterly. Additionally, our annual budget submission identifies staffing needs and anticipated levels-of-effort in the major investigative programs. This level of planning has worked for us in the past given the size of our caseload, the number of investigators, the limited number of field offices, and the daily telephone contact between Headquarters and regional personnel.

We agree, however, that if we are to effectively meet the ever-increasing challenges associated with our investigative activities, additional planning will be required and we have committed ourselves to doing it.

We reviewed the specific recommendations that you make on pages 52, 54, and 80 of the report. We offer the following analysis of the specific recommendations.

**GAO recommended that the Inspector General:**

1. Develop and implement policies and procedures clarifying the applicability of audit standards for desk audits.

See comment 4.

**OIG response:** A manual chapter is being developed to implement policies clarifying the applicability of audit standards for "desk audits" and other special reviews. We anticipate completing the chapter by October 31, 1986.

**Appendix III  
Comments From the Environmental  
Protection Agency**

3

2. Require the use of the OIG checklists to provide greater assurance that audit supervisors document and retain supervisory reviews of all work products.

See comment 5.

OIG response: Existing OIG procedures require supervisors to document and retain supervisory reviews of all work products. OIG will continue to perform management assessment reviews to evaluate and encourage compliance with these requirements.

3. Develop and implement policies and procedures outlining when an identification and evaluation study of internal control is required.

and

4. Develop and implement policies and procedures requiring the reporting of the scope of internal audit work.

See comment 6.

OIG response: On June 10, 1986, we implemented policies and procedures outlining when an identification and evaluation study of internal controls is required and describing procedures requiring the reporting of the scope of internal control work. Additional instructions will be prepared for instances where OIG auditors rely on computer-generated information by September 30, 1986.

5. Develop and implement a quality assurance mechanism, such as referencing, to help ensure the adequacy of evidence.

See comment 7.

OIG response: We believe our existing review procedures are adequate. However, we recognize the added assurance that the referencing process provides. We will require referencing on all of our major audits or any audit marked with controversy. Instructions will be issued by September 30, 1986.

6. Resolve the inconsistencies between OIG and EPA policy on public access to audit reports.

See comment 8.

OIG response: We will resolve the inconsistencies between OIG and EPA policy on public access to audit reports.

7. Ensure all audit reports, including all desk audits, incorporate a clear description of the audit scope and methodology.

See comment 9.

OIG response: The manual chapter that is being developed for "desk audits" and special reviews will include requirements for reporting scope and methodology.

**Appendix III  
Comments From the Environmental  
Protection Agency**

4

8. Ensure all audit reports incorporate a statement that the audit was made in accordance with generally accepted Government standards or statements detailing where the audit deviated from those standards.

See comment 10.

OIG response: Our current policy requires that all audit reports incorporate a statement that the audit was made in accordance with generally accepted Government audit standards or provide statements detailing any deviations. OIG will continue to perform management assessment reviews to evaluate and encourage compliance.

9. (1) Update and correct training records, (2) assess current training needs and establish training priorities and (3) identify alternatives for meeting training needs if funds continue to be limited. (This recommendation was made for both audit and investigative functions.)

See comment 11.

OIG response: Currently, our computerized training profile is fully operational with complete, accurate, and timely information. This system which we believe is the first of its kind within the Inspector General community provides a listing of all courses, taken, recommended, mandatory and optional for each OIG employee from a constantly expanding compendium of courses.

10. Require OIG (1) GS-12 auditors and investigators to submit annual financial disclosure statements and (2) the Deputy IG to systematically provide the results of the annual financial disclosure statement review to the appropriate Divisional Inspectors General or Headquarters managers.

See comment 12.

OIG response: We are now requiring all GS-12 auditors, investigators, and all project officers to submit annual financial disclosure statements. However, we do not believe that providing managers with the results of favorable review results is necessary since favorable results do not represent a conflict of interest. We will continue our current practice of providing recusal statements to supervisors when a potential conflict-of-interest exists.

11. Expand the current financial program by performing additional audits which examine financial reports and the reliability of accounting systems which produce the reports. Eventually, more OIG audits should be undertaken with the objective of expressing an opinion on the accuracy and adequacy of EPA's financial reports.

See comment 13.

OIG response: We believe our planning process provides appropriate consideration of the priority to be given to conducting financial statement audits.

**Appendix III  
Comments From the Environmental  
Protection Agency**

5

12. To enhance audit followup (1) develop and implement policies and procedures for tracking and ascertaining on a systematic basis the audit resolution of OIG recommendations and (2) coordinate with Agency follow-up officials to obtain feedback on the status of action taken to implement OIG recommendations.

OIG response: We are arranging to receive reports from the Agency followup official's new "corrective action tracking system." The reports will be used to monitor progress on audit resolution and we will periodically test the reliability of the reports. It is important to note, however, that these enhancements are not required for compliance with professional standards and that our existing practices were sufficient to satisfy all requirements.

See comment 14.

13. Develop an annual investigation plan which specifies the goals, objectives, or tasks to be accomplished, and the accomplishments, benefits, or results to be derived from attaining the goals.

OIG response: Our newly designed, and soon-to-be implemented, automated management information system should greatly assist this effort. Additionally, starting this year, we will consolidate our various planning documents into a single planning instrument that will include, in addition to investigative goals and priorities, specific output and other performance expectations, FTE allocations, and travel requirements.

See comment 15.

14. Establish a system for cross-referencing investigation cases.

OIG response: While we can currently cross-reference cases through our central index system, we agree with the recommendation and will initiate a policy to cross-reference common subjects between our investigation cases.

See comment 16.

Thank you for providing us with an opportunity to comment on the GAO report. The results of your audit work and report will help us achieve full compliance with the standards and a greater degree of effectiveness.

Should your staff have any questions concerning our comments, please have them contact Anna M. Virbick, Assistant Inspector General for Management and Technical Assessment, on 382-4912.

  
John C. Martin

The following are GAO's comments on the EPA Inspector General letter dated July 25, 1986.

## GAO Comments

1. Report amended to address the corrective action that the OIG has taken and is planning to take. See page 30.
2. No change to report needed. See pages 26 and 32.
3. Report amended to address the OIG's planned corrective action. See page 48.
4. No change to report needed. Agency comment addressed on page 26.
5. While existing OIG procedures require supervisors to document and retain supervisory reviews, the required use of checklists would help the OIG ensure compliance with the standard and OIG policies and procedures.
6. Report amended to address the corrective action that the OIG has taken and is planning to take. See page 30.
7. Report amended to address the OIG's planned corrective action. See page 32.
8. Report amended to address the OIG's planned corrective action. See page 34.
9. Because the OIG is developing a manual chapter to implement policies clarifying the applicability of audit standards for desk audits, we are deleting this recommendation.
10. We agree that the OIG has such a policy, but it is silent with regards to desk audits. Because the OIG is developing a manual chapter to implement policies clarifying the applicability of audit standards for desk audits, we are deleting this recommendation.
11. Because the OIG states that it has implemented a computerized training profile which has updated and corrected its training records, we are no longer proposing corrective action.
12. Because the OIG has issued a directive requiring all GS-12 auditors and investigators to submit annual financial disclosure statements, we

are no longer proposing corrective action. In addition, since we did not identify any instances of potential conflicts of interest that went undetected and after considering the inspector general's comments on providing the results of the annual financial disclosure review, we are no longer proposing corrective action.

13. No change to report needed. Agency comment addressed on page 40.

14. The OIG should still develop and implement policies and procedures for enhancing the audit follow-up process. Also, as noted by the OIG, this enhancement is not required for compliance with the audit follow-up standard. Nevertheless, audit follow-up can be particularly important to OIG work since it will provide feedback on the value of OIG audit work performed and the validity of its recommendations. See page 37.

15. Report amended to address the OIG's planned corrective action. See page 48.

16. Report amended to address the OIG's planned corrective action. See page 57.



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