

**MEMORANDUM**

**FROM:** Michael Onojeta, Audit Supervisor

**TO:** Kathy Patterson, D.C. Auditor

**DATE:** August 6, 2021

**SUBJECT:** Quality Control Review for Fiscal Year 2020 Performance Audits

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Pursuant to ODCA's Quality Control Review Procedures, I have completed a review of ODCA's compliance with Generally Accepted Government Auditing Standards (GAGAS) and standards outlined in ODCA's Policies and Procedures for fiscal year (FY) 2020. The purpose of the review was to determine whether ODCA's quality control policies and procedures were appropriately designed and whether ODCA auditors complied with them.

ODCA published 18 reports in FY 2020 including four audits conducted by ODCA Staff in accordance with GAGAS, and three audits conducted by ODCA Staff in accordance with standards outlined in ODCA's Policies and Procedures. All seven audits were considered for inclusion in the internal quality control review because they were either conducted in accordance with GAGAS or ODCA's Policies and Procedures. The remaining 11 engagements were not considered for inclusion in the review because they did not include the statement "conducted in accordance with GAGAS" or "ODCA's Policies and Procedures." Eight of the 11 reports were produced by contractors and they include:

- 1 audit (Everything is Scattered: The Intersection of Substance Use and Justice-Involvement in the District).
- 3 revenue certifications reports (estimates and forecast) in support of bond issuance.
- 1 public opinion survey.
- 2 studies conducted by contractors.

The remaining 3 reports were produced by ODCA staff and they include:

- 1 COVID-19 Federal Funding Streams (compilation).
- 1 letter report on Workforce Development and Youth programs.;
- 1 report on recommendation follow-up.
- ODCA's revised Audit Policies and Procedures.

The methodology for selecting the engagements for review includes:

- Identified performance audits conducted in accordance with GAGAS and ODCA's Policies and Procedures in the FY 2020 Audit Work Plan.
- Ranked the FY 2020 engagements using five criteria: visibility, dollar impact, the complexity of the audit, problems identified during the audit, and if the engagement was a new subject area for the office.
- Assigned risk scores based on the criteria and aggregated the scores.
- Used ALGA's Peer Review Checklist.
- Reviewed audit files in TeamMate and discussed issues with supervisors.
- Reviewed continuous professional education (CPE) files for compliance.

The three audits selected were:

- Earmark Review: DMPED Can Improve Grant Management (*GAGAS, Report Issued Date: February 25, 2020*).
- RPTAC Should Continue Work to Protect Against Conflicts & Improve Transparency, Timeliness, & Data Quality (*GAGAS, Report Issue Date: June 30, 2020*).
- 2008 Clean Energy Law Spurs Progress But District Can Do More To Cut Emissions (*Non-GAGAS, Report Issue Date: February 27, 2020*).

I conducted the Internal Quality Control Review of FY 2020 audits using the ALGA Peer Review checklist<sup>1</sup> with questions corresponding to GAGAS criteria and ODCA's Policies and Procedures. I obtained answers by reviewing the audit report and TeamMate file for each audit. Based on the review of the three FY 2020 audits, I concluded that ODCA complied with GAGAS requirements and standards outlined in ODCA's Policies and Procedures.

In FY 2020, ODCA also updated its policies and procedures manual<sup>2</sup> to comply with the 2018 edition of the Yellow Book which became effective "for performance audits beginning on or after July 1, 2019." Although the audits selected for review began before July 1, 2019, which is the effective date of the revised Yellow Book, the majority of the work was performed after the effective date and ODCA complied with all requirements. Unless otherwise specified, references to ODCA's audit policies and procedures are to the 2020 version, and references to GAGAS are to the 2018 edition. ODCA's audit policies and procedures are reflected in TeamMate, the audit management software used by ODCA, in a detailed list of steps for completing an audit.

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<sup>1</sup> ALGA Form 7: Audit Organization's Description of Quality Control System Revision Date: 2/20/19

<sup>2</sup> Office of the D.C. Auditor Policies and Procedures Manual, effective June 2020

# Quality Control Review for Fiscal Year 2020 Performance Audits

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## Introduction

Generally Accepted Government Auditing Standards (GAGAS) include a mandatory requirement that audit organizations establish policies and procedures for monitoring their systems of quality control.<sup>3</sup> Monitoring of quality is a process comprising an ongoing consideration and evaluation of the audit organization's system of quality control, including inspection of engagement documentation and reports for a selection of completed engagements. The purpose of monitoring is to provide management of the audit organization with reasonable assurance that (1) the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice and (2) auditors have followed professional standards and applicable legal and regulatory requirements.<sup>4</sup>

ODCA established a policy and procedures manual that requires Internal Quality Control Review for two out of every three years. (The triennial external peer review overrides the Quality Control Review for the last fiscal year in the scope of the peer review.<sup>5</sup>) This review provides an evaluation of ODCA's audit practices and compliance with both internal policies and procedures and GAGAS.

The Quality Control Review involved an examination of selected audits to ensure their compliance with GAGAS and ODCA's quality control policies and procedures. While ODCA's policies and procedures have been revised to align with the most recent Yellow Book revisions, it remains valuable to use the Yellow Book standards as the final criteria by which to judge ODCA audit practices.

## Scope and Methodology

ODCA published 18 reports in FY 2020. The methodology for selecting audits for the Internal Quality Control review is to utilize a risk-based ranking process and assign a risk score to each audit based on the following criteria: visibility, dollar impact, complexity of the audit, problems identified during the audit, and whether the engagement was a new subject area for the office. Based on the total risk score, I selected three audits (2 GAGAS Audits and 1 Non-GAGAS Audit) for review.

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<sup>3</sup> GAGAS 5.42

<sup>4</sup> GAGAS 5.47

<sup>5</sup> Office of the D.C. Auditor Policies and Procedures Manual, effective June 2020, Appendix A

Below are the FY 2020 audits selected and evaluated for the Internal Quality Control Review:

- Earmark Review: DMPED Can Improve Grant Management (*GAGAS, Report Issued Date: February 25, 2020*)
- RPTAC Should Continue Work to Protect Against Conflicts & Improve Transparency, Timeliness, & Data Quality (*GAGAS, Report Issue Date: June 30, 2020*)
- 2008 Clean Energy Law Spurs Progress But District Can Do More To Cut Emissions (*Non-GAGAS, Report Issue Date: February 27, 2020*)

I reviewed the following areas for each of the selected audits for compliance with ODCA's policies and procedures, and for compliance with GAGAS: Independence, Professional Standards, Competence, Quality Control and Assurance, Planning, Supervision, Evidence, Documentation, and Reporting.

## Results

### General Standards

#### Independence

GAGAS 3.18 states “[i]n all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity.”

*All three audits showed full compliance with the independence requirements of GAGAS and ODCA's policies and procedures. ODCA staff involved in each engagement completed the Independent statements in TeamMate.*

#### Professional Judgment

GAGAS 3.109 states “[a]uditors must use professional judgment in planning and conducting the engagement and in reporting the results.”

*All three audits had evidence of robust planning and consideration of audit staff with requisite knowledge and background to perform each engagement.*

#### Competence

GAGAS 4.02 states “[t]he audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.”

*All three audits showed full compliance with the competence requirements of GAGAS and ODCA's policies and procedures. ODCA staff involved in each engagement completed competence statements expressing management's judgment that the audit team collectively possessed the experience, knowledge, and technical skills to perform the audit.*

*In addition, a review of ODCA continuing professional education (CPE) files indicate that the staff assigned to each of the three audits complied with both GAGAS CPE requirements - 24 CPEs directly related to government auditing and the 80 CPEs that enhance the auditor's professional proficiency to perform audits.*

## Quality Control

### Quality Control and Assurance

GAGAS 5.02 states “[a]n audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.”

ODCA's Policies and Procedures manual requires an annual internal quality control review. The purpose of the Internal Quality Control Review is to evaluate whether ODCA's quality control policies and procedures were appropriately designed and whether ODCA auditors are complying with them. This review provides an evaluation of ODCA audit practice and compliance with both internal policies and procedures and the Government Audit Standards. The Quality Control Review involved an examination of selected audits to ensure their compliance with GAGAS and ODCA's quality control policies and procedures.

*All three audits complied with GAGAS and ODCA's quality control and assurance requirements. ODCA's policies and procedures, updated in June 2020, incorporated the 2018 Yellow Book revisions.*

## Fieldwork Standards

### Planning

Yellow Book standards require adequate planning of the work necessary to address the audit objectives, and consideration and assessment of audit risk and significance within the context of the audit objectives.<sup>6</sup> The standards further

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<sup>6</sup> GAGAS 8.03 – 8.07

require that auditors gain an understanding of the nature of the program under audit<sup>7</sup> and the context in which it operates.

*The three audits selected for review complied with all applicable standards. Specifically, the two GAGAS audits complied with the Yellow Book planning requirements, while the remaining non-GAGAS audit complied with standards outlined in ODCA's Policies and Procedures.*

## **Supervision**

GAGAS 5.36 states that “audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.” GAGAS 6.31 further states that “[a]uditors should document supervisory review, before the report release date, of the evidence that supports the findings and conclusions contained in the audit report.”

ODCA's policies and procedures require Audit Supervisors and Auditors-in-Charge (AICs) to provide regular supervision to audit team members. Regular supervision is demonstrated through mandatory weekly audit team meetings and review/approval of workpapers in TeamMate. Evidence of supervision in TeamMate would include approved audit procedure steps, exceptions, and work papers; completed coaching notes; and/or documented meetings with the Auditor or senior management.

*All three audits reviewed had evidence of proper supervision.*

## **Evidence**

Evidence standards require auditors to obtain sufficient and appropriate evidence that provides a reasonable basis for findings and other conclusions. Compliance with this evidence standard must be documented in TeamMate with a workpaper.

*A review of workpapers in TeamMate indicates that all three audits had obtained sufficient and appropriate evidence addressing the audit objectives and supporting findings and conclusions.*

## **Audit Documentation**

Both GAGAS and ODCA's policies require that auditors prepare audit documentation related to all audit phases (Planning, Fieldwork, and Reporting) for each audit. “Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the

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<sup>7</sup> GAGAS 8.36

conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.<sup>8</sup>

*In most cases, the three audits reviewed complied with GAGAS and ODCA documentation requirements. However, there are opportunities for improvement as discussed in Issues 1 & 2 below.*

## *Issue 1*

**Criteria:** GAGAS 8.33 states that “[a]uditors must prepare a written audit plan for each audit. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.”

**Condition: Workpaper Completeness.** In 1 of 3 audits reviewed (RPTAC), the Audit Work Plan in the Survey section of the workpaper in TeamMate was not filled out completely. *Please note that this is a best practice and not a violation of GAGAS and/or ODCA’s policies and procedures because all planned procedures were completed and reviewed in TeamMate before report issuance.*

**Recommendation:** *Establish monitoring procedures to ensure that all workpapers are completed and reviewed before issuing audit report.*

**Update:** I discussed this matter with the Deputy Auditor who concurred and provided a written response stating that “[w]e added a procedure step in the fieldwork phase and the reporting phase to remind auditors to complete the audit plan for the fieldwork phase and then again in the reporting phase.

## *Issue 2*

**Condition: Workpaper Completeness.** In 1 of 3 audits reviewed (RPTAC), the result of the internal control assessment performed was not summarized either in the Internal Control Evaluation Tool or in the TeamMate “Conclusion Tab”. Summarizing the results of assessments in the workpaper will facilitate the review process and improve audit quality.

*Please note that this is a best practice and not a violation of GAGAS and/or ODCA’s policies and procedures because all planned procedures were completed and reviewed in TeamMate before report issuance.*

**Recommendation:** Establish procedures to ensure auditors summarize and document the result of internal control assessment in the audit workpaper.

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<sup>8</sup> GAGAS 8.132

## Reporting Standards

GAGAS 7.24 requires “audit organization in a government entity should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports.”

*All three audits reviewed adhered to GAGAS standards and ODCA reporting requirements. However, I observed that the complete list of audit report recipients was not included in the workpaper documentation. See issue #3 below.*

### Issue 3

**Criteria:** ODCA’s policy and procedures requires that the AIC should provide the ODCA Communications Director with the names and email addresses of the engaged entity staff to whom the report is directed. The final report must be issued to the audited entities, Councilmembers, members of Congress, executive branch officials, and any other recipients as the D.C. Auditor may require. The Communications Director distributes the report via email.

**Condition:** In all three audits reviewed, a complete list of recipients of the final audit reports was not documented in the audit workpapers. In each audit, the report was issued to the auditee and the respective chairs of the committees and posted on the ODCA website; however, the lists of other recipients were not maintained in the audit documentation.

**Recommendation:** Establish procedures to ensure a complete list of audit report recipients is documented in the audit work papers.



## Conclusion

The Internal Quality Control Review for Fiscal Year 2020 identified some minor issues and recommended corrective actions to further improve the quality and management of audits. ODCA has already taken proactive steps to address the issues identified. Overall, ODCA's system of quality control was adequately designed and complied with the applicable standards in all material respects.