

April 10, 2014



Expected Release

10:00 a.m.

Statement for the Record
The Honorable Jon T. Rymer
Inspector General,
Department of Defense

before the

Senate Homeland Security and
Governmental Affairs Committee, Subcommittee on
Financial and Contracting Oversight

on

"Oversight of Small Agencies"

Chairman McCaskill, Ranking Member Johnson, and members of the Subcommittee on Financial and Contracting Oversight, I am pleased to have the opportunity to present a prepared statement for today's hearing on "Oversight of Small Agencies."

Although my present position is the Inspector General for the Department of Defense, I am submitting this statement in my capacity as Chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Audit Committee. I have chaired the CIGIE Audit Committee for six years. I would like to focus my remarks on efforts by the Audit Committee to confirm that IGs for small agencies meet the requisite standards for performing critical audit oversight work.

The mission of the Audit Committee is to provide leadership to and serve as a resource for the Federal Inspector General (IG) audit community. Specifically, the Audit Committee sponsors and coordinates audit-related activities that address multi-agency or Government-wide issues, maintains professional standards for OIG audit activities, and administers the audit peer review program. A principal objective of the Audit Committee is to promote effective oversight of government agencies by providing guidance and standards that ensure the audits conducted by Federal Inspectors General can be relied upon to be fair, objective, accurate, and performed in accordance with professional standards and legal and regulatory requirements.

The Generally Accepted Government Auditing Standards (GAGAS) published by the U.S. Government Accountability Office, commonly known as the "Yellow Book," establishes professional standards and guidance for conducting government audits. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, performance of the audit, and reporting.

One of the primary controls to ensure an IG Audit office is meeting these standards is the peer review process. According to the Yellow Book, “each audit organization performing audits in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.” The Inspector General Act of 1978, as amended (Section 4(b)(2)) also requires that audit offices within an Office of Inspector General and within certain other Federal entities be reviewed by another audit entity in the Federal government.

It is the responsibility of the CIGIE Audit Committee to establish a schedule for conducting peer reviews of IG audit organizations. The Audit Committee also publishes the “Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General.” This guide was last published in 2009. Last year, the Audit Committee began the process of updating the guide.

For several years, the CIGIE Audit Committee has recognized that IGs for smaller agencies face unique challenges in complying with the peer review process. The IGs of these smaller agencies typically have small staffs. Some of these IGs do not perform GAGAS audits, but instead perform other types of reviews and may hire Independent Public Accountants (IPAs) to audit their agency’s financial statements or programs. When using IPAs, IGs are required to supervise the IPA’s work for compliance with GAGAS.

The fact that some IGs have not conducted GAGAS audits presents challenges when undergoing a peer review in accordance with the Yellow Book. In the past, peer reviews have addressed this challenge by including a scope limitation or by not providing a final opinion. In at least one instance, an IG office requested to be removed from the peer review schedule.

The CIGIE Audit Committee, at its most recent meeting on March 25, 2014, considered how to revise the peer review guide to ensure that smaller IGs follow

established audit standards, policies and procedures. The Committee adopted the position that all IGs should be subject to a peer review. The Audit Committee will include in the updated Peer Review Guide a modified peer review process for IGs that do not conduct GAGAS audits or only conduct IPA oversight. The Committee also agreed that the results of these reviews should be published in the IG's Semiannual Report to Congress. Recommendations of the Audit Committee will be presented for consideration and approval by the full CIGIE.

The Audit Committee believes these changes will conform the peer review process to the realities of the smaller IGs while continuing to provide Congress and the American public, confidence that the oversight conducted by IG audit offices complies with professional standards and applicable legal and regulatory requirements.