

# THE AUDIT PROCESS



**Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services**

# FOREWORD

This handbook has been developed to give auditors tools to conduct audits and prepare reports. It lays out a systematic approach designed to keep the audit focused, involve all team members throughout the process and facilitate report preparation. Auditors must have a clear understanding of what they are supposed to be doing and how to accomplish the task at hand. At the same time, auditors should be encouraged to develop innovative audit approaches and use their experience and background to identify new audit initiatives. Users of this handbook should be familiar with the *Government Auditing Standards* and the *Office of Audit Services Audit Policies and Procedures Manual*. These provide the guidance that assures a professional product.

The approach to conducting audits described in this handbook is based on three principles:

- Teamwork is more efficient and effective than a layered, hierarchical system of getting audits done.
- Setting clear, specific objectives for an audit before the field work starts and having the flexibility to refocus and refine the objectives during the audit will provide the direction for the work to stay on track.
- The five attributes should be the focus of the audit team in accomplishing the audit objectives.

This handbook stresses teamwork and introduces the Objective Attributes Recap Sheet (OARS). The OARS is a worksheet that is intended to help the audit team establish objectives, stay focused on the objectives and develop the attributes for the report.

To understand the participation of team members and the use of the OARS, we have defined an audit as having six phases. Throughout the audit it is expected that all members of the audit team will be continually interacting with each other. On-site auditors, including senior auditors, will review and discuss each other's work; audit managers, Regional Inspectors General for Audit Services, and Assistant Inspectors General for Audit Services will participate in decision making during each phase of the audit. On reviews for the Inspector General's signature, the Deputy Inspector General for Audit Services, General Counsel and Audit Policy and Oversight staff will also participate at critical points in the process.

Where a team member is unable to participate during a portion of the audit, it will be understood that the other team members will carry on and that the progress of the audit will not be delayed. Ideally, team members will function together through all six phases of the audit and the OARS will serve as the tool that will keep the team and the audit focused. Realistically, team members will have a number of priorities demanding their attention. Working with clearly established objectives and using the structure of the attributes should help team members be responsive to their priorities. To accomplish this, it is essential that the team members agree on the audit objectives and finding attributes during the preliminary planning phase, at the end of the survey phase and at the start of the reporting phase.

Our mission is to provide a variety of audit services to a variety of customers and this service takes the form of performing audits and reporting on the results. We believe that the Office of Audit Services (OAS) can best provide this service through a systematic approach to auditing based on team participation, clear objectives for each assignment and focusing the audit work on development of the attributes of an audit finding. Although these principles apply to all audits performed by OAS, we recognize that financial statement audits performed under the Chief Financial Officers (CFO) Act of 1990 would not come under the guidelines of this handbook.

Financial statement audits performed in accordance with the CFO Act are conducted following the *Federal Financial Statement Audit Manual* issued by the President's Council on Integrity and Efficiency. This manual has its own proforma working papers and the primary focus of

the audit is on risk analysis and on determining whether agency operations are accurately reflected in the financial statements. Audit results may affect the audit opinion, the report on internal controls or compliance, etc., but may not necessarily include the attributes normally expected in audit findings.

The handbook has three parts:

**PART 1: Audit Teams, Objectives, Attributes and Phases of the Audit Process** - Discusses the three principles of systematic auditing: teamwork, clear objectives and attributes of a finding, in the context of the six phases of an audit. This part also introduces the primary tool that runs through the audit, the OARS. The OARS is a worksheet that is intended to be used in each phase of the audit. The OARS should serve as a tool for organizing thoughts, an aid for staying focused on the objectives of the audit, an outline for findings, a focal point for discussion among team members on the progress of the work, and an aid for the independent report review function.

**PART 2: Audit Evidence and Working Papers** - Assures that the audit is performed in compliance with the *Government Auditing Standards* and the *OAS Audit Policies and Procedures Manual* and provides guidance on documenting the audit.

**PART 3: Standard Working Paper Forms** - A compendium of standard working paper (SWP) forms for documenting audit work as required by *Government Auditing Standards* and the *OAS Audit Policies and Procedures Manual*. These forms are optional, unless required by agency policy. They are provided as an aid for the auditor to meet the documentation requirements of the standards. All of these forms are available in WordPerfect format.

This handbook was prepared by a committee whose members have extensive experience in the auditing profession and in the Department of Health and Human Services (HHS). The committee took a fresh look at how we have been doing our audits and the characteristics of some of the more successful audits. The process of preparing the handbook was a

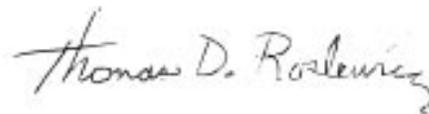
group effort that resulted in a product intended for use by those at all levels of involvement in our audits. The committee members are:

Donald L. Dille, Region VI (*Chair*)  
Craig T. Briggs, Health Care Financing Audits  
James P. Edert, Region II  
Robert F. Fisher, Human and Financial Resources  
James R. Hargrove, Region VI  
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David J. Kromenaker, Region V  
Thomas P. Lenahan, Region IX  
John W. Little, Region VI

The committee was ably assisted by Dana Duncan of the Region IV ATS staff. Mr. Duncan developed a menu-driven package of automated working papers with all of the bells and whistles that even the novice computer user will find easy to use.

Dr. Wayne Knoll deserves special recognition. Dr. Knoll provided the initial thought that development of the audit report is, in fact, the process of the audit. The committee, with Dr. Knoll's active participation, incorporated and expanded on that concept in this handbook. The result is this comprehensive discussion of the audit process. Throughout the work of the committee, Dr. Knoll's insight, suggestions and support were invaluable.

In addition, I would like to acknowledge the assistance that the committee received from Ms. Martha Heath of the Region VI desktop publishing staff. Ms. Heath's creativity and innovativeness are very evident in the professional appearance of this product.



**Thomas D. Roslewicz**  
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# TABLE OF CONTENTS

## **PART 1 -**

### **AUDIT TEAMS, OBJECTIVES, ATTRIBUTES AND PHASES OF THE AUDIT PROCESS**

<b>AUDIT TEAMS</b> . . . . .	1-1
Quality Communication . . . . .	1-1
Team Meetings . . . . .	1-2
<b>OBJECTIVES</b> . . . . .	1-3
<b>ATTRIBUTES OF AN AUDIT FINDING</b> . . . . .	1-5
Criteria . . . . .	1-6
Condition . . . . .	1-6
Cause . . . . .	1-6
Effect . . . . .	1-7
Recommendations . . . . .	1-8
<b>THE OARS</b> . . . . .	1-8
Concept . . . . .	1-8
Content of the OARS . . . . .	1-10
<b>SIX PHASES OF THE AUDIT PROCESS</b> . . . . .	1-12
Phase 1 - Preliminary Planning . . . . .	1-12
Phase 2 - Pre-Survey . . . . .	1-14
Phase 3 - Survey . . . . .	1-17
Phase 4 - Data Collection and Analysis . . . . .	1-20
Phase 5 - Reporting . . . . .	1-21
Phase 6 - Postaudit Evaluation . . . . .	1-24

# TABLE OF CONTENTS

## Part 1 (continued)

### ILLUSTRATIONS

Figure 1-1	The OARS . . . . .	1-11
Figure 1-2	Preliminary Planning . . . . .	1-12
Figure 1-3	Pre-Survey . . . . .	1-14
Figure 1-4	Survey . . . . .	1-18
Figure 1-5	Data Collection and Analysis . . . . .	1-21
Figure 1-6	Reporting . . . . .	1-23
Figure 1-7	Postaudit Evaluation . . . . .	1-25

### APPENDIX

Flowchart of the Audit Process

## PART 2 -

### AUDIT EVIDENCE AND WORKING PAPERS

INTRODUCTION . . . . .	2-1
TYPES OF EVIDENCE . . . . .	2-3
Physical . . . . .	2-3
Documentary . . . . .	2-4
Testimonial . . . . .	2-4
Analytical . . . . .	2-4

# TABLE OF CONTENTS

## Part 2 (continued)

<b>TESTS OF EVIDENCE</b> . . . . .	2-4
Relevancy . . . . .	2-5
Competency . . . . .	2-5
Sufficiency . . . . .	2-6
<b>COMPUTER-PROCESSED DATA</b> . . . . .	2-6
<b>WRITTEN REPRESENTATIONS</b> . . . . .	2-7
<b>AUDIT PROGRAMS</b> . . . . .	2-7
<b>ACCESS TO RECORDS</b> . . . . .	2-8
<b>SUBSTANDARD RECORDS</b> . . . . .	2-8
<b>BASIC PRINCIPLES OF WORKING PAPER PREPARATION</b> . . . . .	2-9
Folder Cover . . . . .	2-11
Content of Working Papers . . . . .	2-12
Electronic Working Papers . . . . .	2-16
<b>TYPES OF FILES</b> . . . . .	2-17
Permanent File . . . . .	2-17
Current Working Paper File . . . . .	2-18
<b>ORGANIZING CURRENT WORKING PAPER FILES</b> . . . . .	2-18
Organization by Objective . . . . .	2-19
The OARS . . . . .	2-19
Supporting Working Papers . . . . .	2-20

# TABLE OF CONTENTS

## Part 2 (continued)

<b>INDEXING AND CROSS-REFERENCING</b> . . . . .	2-20
Indexing . . . . .	2-20
Cross-Referencing . . . . .	2-24
<b>REVIEW OF WORKING PAPERS</b> . . . . .	2-26
<b>INDEPENDENT REPORT REVIEW</b> . . . . .	2-27
<b>SAFEGUARDING WORKING PAPERS</b> . . . . .	2-28
<b>STORAGE AND RETENTION</b> . . . . .	2-28
<b>ACCESS TO WORKING PAPERS</b> . . . . .	2-29
<b>ILLUSTRATIONS</b>	
Figure 2-1 Sample Letter Citing OAS's Authority to Review Records . . . . .	2-9
Figure 2-2 Tick Mark Examples . . . . .	2-13
Figure 2-3 Master Index to Working Paper Folders . . . . .	2-22
Figure 2-4 Index to Audit Working Papers . . . . .	2-23
Figure 2-5 Index System Example . . . . .	2-25
<b>APPENDIX</b>	
Working Paper Organization/Indexing	

# TABLE OF CONTENTS

## **PART 3 - STANDARD WORKING PAPER FORMS**

<b>SWP-1:</b> Folder Cover . . . . .	3-1
<b>SWP-2:</b> Master Index to Audit Folders . . . . .	3-1
<b>SWP-3:</b> Index to Audit Working Papers . . . . .	3-1
<b>SWP-4:</b> Objective Attributes Recap Sheet . . . . .	3-2
<b>SWP-5:</b> Type Of Review and GAGAS Certifications . . . . .	3-2
<b>SWP-7:</b> Supervisory Involvement in Preliminary Planning . . . . .	3-2
<b>SWP-8:</b> Audit Planning Reference List . . . . .	3-2
<b>SWP-9:</b> Auditee/Program Officials . . . . .	3-2
<b>SWP-10:</b> Risk Analysis Worksheet . . . . .	3-2
<b>SWP-11:</b> Internal Control Assessment . . . . .	3-3
<b>SWP-12:</b> Compliance with Legal and Regulatory Requirements . . . . .	3-3
<b>SWP-13:</b> Relying on the Work of Others . . . . .	3-3
<b>SWP-14:</b> Follow-up on Prior Audit Findings and Recommendations . . . . .	3-3
<b>SWP-15:</b> Reviewer's Notes . . . . .	3-3
<b>SWP-16:</b> Open Item List . . . . .	3-3
<b>SWP-17:</b> Time Log . . . . .	3-4

# TABLE OF CONTENTS

## Part 3 (continued)

<b>SWP-18:</b> Entrance Conference Record . . . . .	3-4
<b>SWP-19:</b> Exit Conference Record . . . . .	3-4
<b>SWP-20:</b> Record of Contact . . . . .	3-4
<b>SWP-21:</b> Contact Log . . . . .	3-4
<b>SWP-22:</b> Contract/Grant Brief . . . . .	3-4
<b>SWP-23:</b> Need For Advanced Audit Techniques Assistance . . . . .	3-4
<b>SWP-24:</b> Sample Planning Document . . . . .	3-5
<b>SWP-25:</b> Estimate Planning Document . . . . .	3-5
<b>SWP-26:</b> Sampling and Estimation - Working Paper Checklist . . . . .	3-5
<b>SWP-27:</b> Sampling and Estimation - Reporting Checklist . . . . .	3-5
<b>SWP-28:</b> Working Paper Checklist . . . . .	3-5
<b>SWP-29:</b> Audit Report Checklist . . . . .	3-5
<b>SWP-30:</b> Independent Report Review Processing Control Sheet . . . . .	3-5
<b>SWP-31:</b> Justification for Use of GS-12 or Lower-grade Auditor . . . . .	3-6
<b>SWP-32:</b> Independent Reviewer's Notes . . . . .	3-6
<b>SWP-33:</b> Independent Report Review Certification . . . . .	3-6

# TABLE OF CONTENTS

## Part 3 (continued)

<b>SWP-34:</b> Postaudit Evaluation . . . . .	3-6
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### APPENDIX

WordPerfect Macro Instructions

### ATTACHMENTS

SWP Forms 1-34

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### ABBREVIATIONS

<b>AIC</b>	Auditor-in-Charge
<b>AICPA</b>	American Institute of Certified Public Accountants
<b>AIGAS</b>	Assistant Inspector General for Audit Services
<b>AIMS</b>	Audit Inspections Management System
<b>APO</b>	Audit Policy and Oversight
<b>CIN</b>	Common Identification Number
<b>CPA</b>	Certified Public Accountant
<b>DIGAS</b>	Deputy Inspector General for Audit Services
<b>FOIA</b>	Freedom of Information Act
<b>GAGAS</b>	Generally Accepted Government Auditing Standards
<b>GS</b>	General Schedule
<b>HHS</b>	Health and Human Services
<b>IG</b>	Inspector General
<b>INR</b>	Independent Reviewer
<b>IRR</b>	Independent Report Review
<b>OARS</b>	Objective Attributes Recap Sheet
<b>OAS</b>	Office of Audit Services
<b>OIG</b>	Office of Inspector General
<b>PQC</b>	Policy and Quality Control
<b>RIGAS</b>	Regional Inspector General for Audit Services
<b>SWP</b>	Standard Working Paper
<b>W/P</b>	Working Paper



## *Part 1*

# **AUDIT TEAMS, OBJECTIVES, ATTRIBUTES AND PHASES OF THE AUDIT PROCESS**

## **AUDIT TEAMS**

Audits are most effective when performed by qualified professionals who work together and are focused on clear objectives. The project nature of audits, the professional characteristics of the OAS staff and the advanced communication technology available to auditors make it possible for teams to function effectively.

Each audit can be viewed as a project, an activity with a start and finish. A team is formed to accomplish the project. Everyone who will participate in the project is part of the team. This includes staff auditors, support staff, senior auditors, supervisors, and managers at both the regional and headquarters levels.

Team members are valued for their knowledge. They know how to perform audits and they understand the governmental environment. However, there are differences between team members that are important to understand if the team is to function productively. Some members may have more hands-on experience, while others may be more skilled in communicating, and others may be stronger in organizational skills. Team members need to recognize these differences and capitalize on the strengths and talents that each member brings to the team.

### **Quality Communication**

The key to effective teamwork is communication. Nothing else is more critical. Everyone on the team needs to know what is going on and needs to participate in a give-and-take discussion as decisions are made. This is the best way the

team can achieve understanding, plan the best audit approach and reach consensus.

Team members need to interact for the team to be effective. Team interaction occurs spontaneously in some cases and more formally in other cases. The interaction needs to be timely. Individual team members should not hold back information, ideas or any thoughts on the work of the team. Full participation by all team members is a significant factor in the success of the audit. However, a team member's inability to participate with the team, during any part of the audit, should not slow the work of the team.

## **Team Meetings**

During each phase of an audit, meetings of team members are needed. The flowchart of the audit process identifies several points where team meetings may occur. Meetings should be scheduled at major decision points in the process. Meetings should also occur between auditors while they do their day-to-day work. The auditors should share their findings and observations regarding the audit environment. Meetings with supervisors and managers should occur when any member of a team believes that one is needed. The level of staff participation in team meetings will depend on the objectives of the meeting.

There are three critical points during the process when all team members must fully understand and agree on the audit objectives and finding attributes. They are during preliminary planning phase, at the end of the survey phase and at the beginning of the reporting phase. This is particularly important on reviews for the Inspector General's signature. For example, on such a review, the DIGAS, APO staff (AIGAS, and policy, statistics and workplan specialists), cognizant Division Director and staff, General Counsel, and cognizant RIGAS and staff must agree on the preliminary expectations for the project during the preliminary planning phase. At the end of the survey phase, they should agree on the refined objectives and plan to proceed with the review, or agree to conclude the review. At the beginning of the reporting phase, the team should review and agree on the attributes of developed findings and the manner of reporting these findings.

The purposes of the meetings are to exchange information and improve the quality of the audit. Each team member should be well informed regarding the workings and results of the audit.

Team members should review each other's work and serve as sounding boards to work out difficult and complex issues. Auditors working cooperatively can help assure the quality of each other's work.

## OBJECTIVES

Setting clear, specific objectives is the key to efficient government auditing. Audits that have clear, specific objectives use less audit resources and are completed in less time. Establishing clear objectives provides a structure and discipline that helps the audit team focus on the expected results and avoid confusion. Clear objectives also help ensure that the audit work will be conducted timely and efficiently, and that the work will produce the desired results.

### NOTE:

*Objectives should be stated in such a way that a response can be given in specific positive terms. Two methods frequently used in attempting to phrase objectives are: (1) as questions or (2) "to determine" statements. For example:*

*Does XYZ Laboratory bill Medicare the same amount for laboratory procedures that it bills physicians?*

*To determine if ABC University removed all unallowable costs from its cost pools in preparing its indirect cost proposal.*

Government Auditing Standards provide that all audits begin with objectives, and that those objectives determine the type of audit to be conducted and the audit standards to be followed. The standards further provide that the objectives of an audit extend throughout each phase of the audit, from the selection of the scope of work and staff, to the conduct of the audit, and the timing and nature of reports.

There are many advantages in auditing to clear, specific objectives:

**Accomplishes More With Less:** Time invested in determining an audit's objectives is time well spent because an audit with clear objectives is less likely to result in wasted resources, delays and poor quality reports. Once the objectives are established, the scope and methodology of the field work can be planned. Each team member should understand what the review is expected to accomplish.

**Builds Team Identity and a Sense of Ownership in the Audit:** Clear, specific objectives present a challenge for the team. Meaningful challenges are the catalyst that pulls a team together and motivates it to perform. Team members should work cooperatively to accomplish the audit objectives, including sharing their work with each other and reviewing each other's working papers. This cooperative approach provides assurance that the audit team accomplishes the objectives, remains focused, addresses the attributes, provides documentation of the audit work and meets auditing standards.

**Controls and Minimizes Audit Risk:** Setting clear and specific objectives minimizes audit risk. Audit risk is minimized by focusing on the objectives of the audit when conducting the field work, making reviews of the field work based on the objectives and developing the report from the information obtained in the course of accomplishing the objectives.

**NOTE:**

*Audit risk is made up of three components: **Inherent Risk, Control Risk and Detection Risk.***

**- Inherent Risk:**

*The susceptibility of an assertion or conclusion to be misstated because of a factor other than a failure of the internal control structure. (For example, pension liabilities are by their nature more complex than accounts payable.)*

**- Control Risk:**

*A misstatement that could occur in an assertion or conclusion because of a failure of the internal control structure. (For example, an undetected major defalcation is more probable under a weak internal control structure than under a well-designed one.)*

**- Detection Risk:**

*The chance that the auditor will not detect a material problem. (For example, poorly designed audit procedures may not detect a material overstatement of assets on the balance sheet.)*

**Provides Tools for the Audit Team to Conduct an Efficient and Effective Audit:** When the objectives of the audit are precisely stated, the audit team has a clearer understanding of the extent of its responsibilities. Accordingly, the team can design specific audit tests to fulfill those responsibilities.

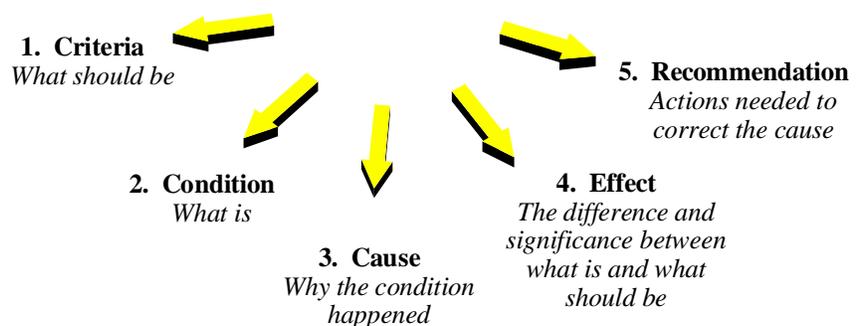
**Aids in Writing the Report:** Specific objectives provide a blueprint for writing the report. The audit team can begin writing by addressing each objective. Specific objectives provide the focus for identifying the attributes of a finding and organizing the report.

**Provides a Logical and Documented Progression Through the Phases of the Audit:** Before field work begins, an OARS [SWP-4] is started for each objective. An OARS, properly planned and tailored to a particular objective, focuses and refocuses the audit team throughout the audit process. The audit team then performs the steps necessary to obtain evidence to support a conclusion on the objective.

## ATTRIBUTES OF AN AUDIT FINDING

While the elements needed for an audit finding depend on the objectives of the audit, a well-developed audit finding generally contains five attributes:

### FIVE ATTRIBUTES OF AN AUDIT FINDING



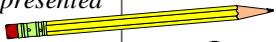
Development of the attributes guides the audit team in organizing and analyzing relevant evidence and helps ensure that all necessary information for a finding is identified, developed and adequately documented. In audits where the attributes are not identified or are unclear, the result can be a collection of facts that provides little or no direction for writing, reviewing or reading the audit report. On the other hand, if the integrity of the audit attributes is maintained, the reader of the audit report can be led through the evidence, clearly establishing the credibility of the audit team's position.

During the audit, the audit team should determine which attribute each piece of relevant evidence supports. As these decisions are made, each item in the working papers can be

placed in a natural attribute sequence and included on an OARS relating to the appropriate audit objective. Then, when drafting the report, the audit team can pull together the information needed for each section of the report. A description of each attribute follows.

**NOTE:**

*More than one source of criteria may be used in an audit finding. Such a practice is especially beneficial when one criterion strengthens and supports another. For example, a Federal regulation may be adopted by a State agency and become part of the State plan. By citing both the Federal regulation and the State plan, the audit team reinforces the basis for the position presented in the finding.*

**Criteria**

Criteria are the standards against which the audit team measures the activity or performance of the auditee. Other information, such as prior events and historical practices, can be included with the criteria to help understand the issues. Criteria can come in many forms, including Federal laws and regulations, State plans, contract provisions and program guidelines. Legislative intent may also be used as persuasive authority to support the criteria and enhance the conclusion of the audit team.

**Condition**

The condition is a factual statement describing the results of the audit. It tells what was found during the audit. It answers each objective either positively or negatively. The condition describes what the auditee did or is doing compared to the standard established by the criteria.

A complete discussion of the condition could include background information about the auditee's systems and procedures and a description of how the systems and procedures are put into practice.

**Cause**

Knowing why or how a condition occurred is essential to developing meaningful recommendations. The audit team needs to have a clear understanding of the cause when developing recommendations that will correct the problem and be accepted by management.

Each condition may have more than one cause, with one underlying cause, that involves management and management decisions. Therefore, the underlying or root cause of the condition should be directed at the policies, procedures and practices established by management. The

cause should be developed to the point where it is clear that correcting the condition will remedy or prevent recurrence of the condition.

The discussion of cause should identify:

- Specific actions or inactions by officials.
- Functional level at which no action or improper action was taken.
- Missing or weak internal controls.

The reasons for incorrect actions also need to be clearly understood. Knowing these reasons establishes the tone and direction for the recommendations.

## **Effect**

Having identified a difference between what is (condition) and what should be (criteria), the audit team needs to determine the impact of this difference on the program, activity or function being audited. The discussion of the effect should include:

- The significance of this difference in quantitative terms, if possible.
- The method used to calculate the quantitative impact, if applicable.
- The programmatic impact of any adverse conditions.
- Whether the impact on the program or function is ongoing or represents a one-time occurrence.

Such considerations will enable the reader of the audit report to grasp the relevance of the incorrect actions and understand the need for implementing the recommendations.

## Recommendations

A recommendation is a clear statement of the action that must be taken to correct the problem identified by the audit. Recommendations should address the underlying or root cause and be specific, feasible and cost effective. They should be addressed to the parties that can implement them.

## The OARS

### Concept

An OARS, properly planned and tailored to a particular audit objective, focuses and refocuses the audit team throughout the audit process. It provides a logical and documented progression through the phases of the audit.

The OARS serves several fundamental and interrelated purposes.



- **Focuses the audit team on the audit objective during the audit process.**
- **Assists the audit team in performing a timely and critical analysis of the evidence obtained.**
- **Facilitates meaningful supervisory and management review.**
- **Integrates report preparation throughout the audit process.**
- **Replaces working paper summaries.**

The OARS assists the audit team throughout the audit process.



- **Establish clear audit objectives**
- **Focus field work on the audit objectives**
- **Establish communications among audit team members**
- **Organize the pre-survey and survey**
- **Develop a survey and audit program**
- **Assess day-to-day progress**
- **Develop findings**
- **Analyze findings**
- **Organize the working papers**
- **Summarize the field work**
- **Prepare for conferences and briefings**
- **Draft a report during the field work**

An OARS also helps supervisors and managers.



- **Plan the review**
- **Assess review progress**
- **Review working papers**
- **Analyze findings**
- **Conduct conferences**
- **Review draft reports**

Audits are normally performed in six phases:

1. PRELIMINARY PLANNING
2. PRE-SURVEY
3. SURVEY
4. DATA COLLECTION AND ANALYSIS
5. REPORTING
6. POSTAUDIT EVALUATION

Throughout these six phases, the OARS should be used in planning, organizing and documenting the audit process. Also, the OARS becomes the key to developing the audit report during the field work. As Wayne Knoll, Ph.D., states in his seminar and workshop entitled *Managing the Audit and Developing the Audit Report*:

*The key to developing the report draft during the audit is to systematize the entire audit. Thus each step of the audit not only leads logically to the next, but also simultaneously creates a key portion of the report during the audit.*

**NOTE:**

*When it is difficult to briefly identify on the OARS either the audit objective or attributes, it may be an indication that the objective is too general. The audit objective may need to be divided into subobjectives and additional OARS created.*



## Content of the OARS

The OARS identifies the:

- ✓ **Objective:** The purpose of the audit work, an explanation of why it is undertaken and what the audit team is trying to accomplish.
- ✓ **Attributes of the Finding:** The condition, criteria, cause, effect and recommendation.
- ✓ **Test(s) Made:** The audit universe, sample size, method used to select the sample and the number and percent of discrepancies noted.
- ✓ **Auditee Personnel with Whom Discussed:** The name, title and department of the auditee personnel with whom the finding was discussed. *(Also included is the date of the discussion and the name of the auditor.)*



## SIX PHASES OF THE AUDIT PROCESS

### Phase 1 - Preliminary Planning

The preliminary planning phase (Figure 1-2) is the initial step of the audit process. In this phase, the audit team is formed and the team gains an understanding of the reasons for the audit and identifies the objectives. The audit team then begins planning the audit.

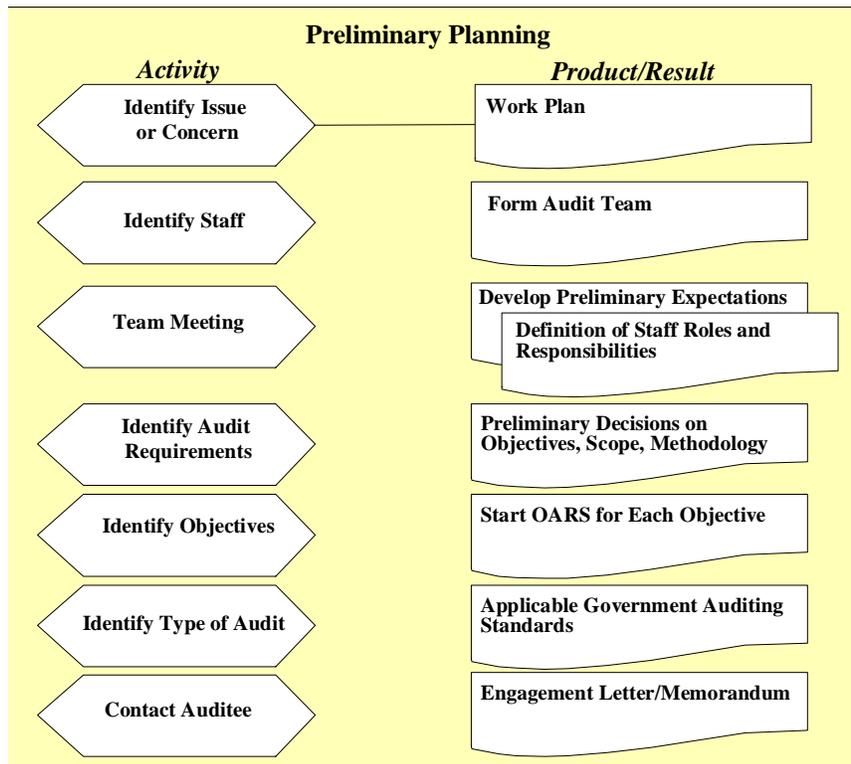


Figure 1-2

**Identify an Issue or Concern** - An issue or concern with audit potential can be identified through a variety of sources, including Congress, HHS operating divisions, other Office of Inspector General (OIG) components and research performed by OAS. These issues and concerns are incorporated into the OIG/OAS work plan.

**Identify Staff** - When a decision is made to proceed with a project, the audit team is formed. Everyone assigned to the team should be notified that they are part of the team.

**Team Meeting** - The audit team establishes audit and time requirements and makes appropriate staff assignments. In determining staffing and time requirements, consideration is given to the number and experience of team members assigned to the audit. Risk factors of the audit are considered in making these determinations. Staff days and timeframes should be budgeted. For requested audits, the team should discuss with the requestor what is expected and the level of importance or significance of the request. These discussions should be documented. The **RECORD OF CONTACT** [SWP-20] could be used. Also during this phase, preliminary expectations relative to the contents of the report are developed. It is important that the audit team targets in the beginning what will be delivered at the end.

**NOTE:**

*The audit team should focus on questions such as:*

- *Are the requestor's expectations translatable into audit objectives?*
- *Are the requestor's expectations achievable or realistic?*
- *Can the request be accomplished by an audit?*
- *Does the request justify the commitment of audit resources?*

**Identify Audit Requirements** - The audit requirements, in terms of objectives, scope and methodology, also need to be considered in this phase. Final decisions about these items, however, will not be made until the survey (Phase 3).

The first step of this process is to clearly and precisely identify the objectives of the audit. At this point, a separate OARS should be prepared for each objective.

The audit team should discuss the scope and methodology of the review. The scope and methodology of the review will be refined after review and analysis takes place in the survey phase of the audit.

The team should identify the OAS requirements that need to be accomplished. These requirements include establishing a Common Identification Number, a Basic Audit Record for the Audit Information Management System and an audit start notice. The *OAS Audit Policies and Procedures Manual* has specific requirements for sampling plans and nationwide audits which should be consulted. Preliminary planning may be documented on the forms, **SUPERVISORY INVOLVEMENT IN PLANNING** [SWP-7] and the **PLANNING REFERENCE LIST** [SWP-8].

**Identify the Type of Audit** - The audit team should identify the type of review to be performed, either a financial related audit or a performance audit. This may be documented on the form, **TYPE OF REVIEW AND GAGAS CERTIFICATIONS** [SWP-5].

**Contact Auditee** - The auditee is notified of the audit and the specific time and location for the entrance conference should be requested.

## Phase 2 - Pre-Survey

In the pre-survey phase (Figure 1-3), the audit team determines the laws, regulations or guidelines relevant to the objectives of the audit. The audit team meets with program officials to gain an understanding of how the program or activity is supposed to function. Program officials can provide information on the program and potential problem areas. Information obtained at this meeting can be used to establish audit materiality, assess audit risk and clarify audit objectives.

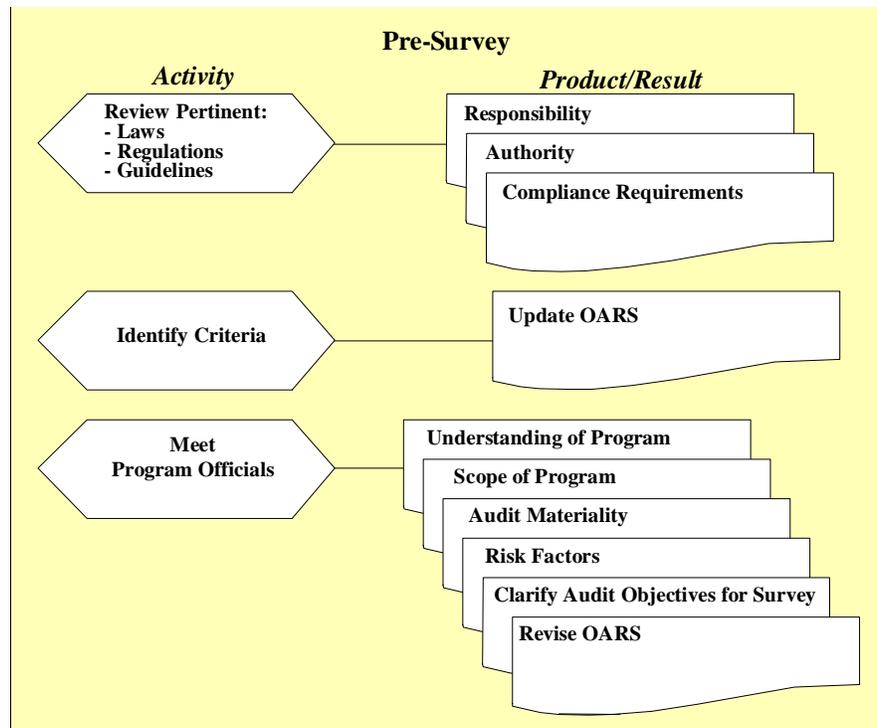


Figure 1-3

**SPECIFICALLY:**

- What is to be done?
- Who is to do it?
- What are the goals and objectives to be achieved?
- What population is to be served?
- How much can be spent on what?

**Review of Criteria** - Laws, regulations and guidelines in a governmental environment set forth program requirements. Depending on the audit objectives, the audit team needs to research the criteria to determine compliance requirements.

Depending on the type of audit to be performed, **Government Auditing Standards** prescribe different requirements. For example, in a financial audit, the audit team should test for compliance with applicable laws and regulations. In a performance audit, compliance tests should be made when necessary to satisfy audit objectives.

The audit team is expected to use professional judgment in determining the laws and regulations that could have a significant effect on the audit objectives. Applicable criteria could include State and local regulations as well as policies of the auditee.

**NOTE:**

*It is important to determine a criteria hierarchy. In other words, if laws, regulations and guidelines on the same program appear to contradict each other, the audit team must decide which criterion takes precedence. In cases where the criteria is not clear, the audit team should seek a legal opinion from the Office of General Counsel.*

A variety of sources of information can assist the audit team in determining the relevant criteria. These include:

- Federal program officials
- State program officials
- Prior auditors
- Permanent audit files
- The auditee

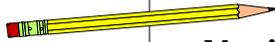
Information on some Federal programs may be available in computerized data bases, journals, news magazines or other media sources. Government document sections of major libraries should have copies of Federal laws and regulations. In addition, major libraries generally have copies of congressional hearings that can provide insight into legislative intent. Additional information may be available from commercial information sources. For example, information services are available on the Medicare and Medicaid programs. Information services generally compile information from all sources that affect a particular program or activity.

In performing research, the audit team could review:

- Federal laws
- Federal regulations
- Federal guidelines or policy interpretations
- State laws, regulations or guidelines
- Court Cases
- Departmental Appeals Board decisions
- Auditee policy and procedures

**NOTE:**

*Information is available from a wide variety of sources and the examples given above are by no means exhaustive. The key point, however, is that it is up to the audit team to decide what criteria are relevant to accomplish the audit objectives.*



The audit team's review could be documented on the form, **COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS** [SWP-12]. The criteria should be documented on the OARS when developed.

**Meeting With Program Officials** - At this stage of the audit, a meeting with program officials can provide meaningful insight into how a program really works. For example, a program can operate quite differently from what Congress intended. Factors that create this difference can include the newness of the program, the complexity of the legislation or the ability of a particular auditee to operate a program or activity successfully. For external audits, program officials generally have communicated with auditees or may have performed their own program reviews. For internal audits, program officials would have the results of their reviews under the *Federal Managers' Financial Integrity Act*.

Program officials may also be aware of other audits or reviews that have been performed. These audits or reviews can provide useful information regarding the auditee. Program officials usually have knowledge about the size of a program, the level of funding and how long auditees have been funded. In making decisions as to which auditees to select, it can be helpful to know how many auditees operate a particular program and the level of funding for each auditee. It may also be useful to know how much experience an auditee has in operating a program. Program officials may be able to provide insights into how successful an auditee has been in operating a program.

Discussions with program officials can assist the audit team in making preliminary decisions on audit materiality. In

addition to funding levels, information may be provided on significant or sensitive issues that could affect materiality thresholds.

Program officials can be helpful in alerting the audit team to risk factors that could affect its approach to the audit. Information may be provided on the auditee's management operating style, the quality of its accounting records and its emphasis on maximizing Federal reimbursement. Finally, information obtained from program officials can be used to clarify audit objectives on the OARS. At this stage of the audit process, it may be appropriate to consider the need for a legal opinion or interpretation from the Office of General Counsel.

### **Phase 3 - Survey**

The audit survey phase (Figure 1-4) includes steps necessary to assemble information that will enable the audit team to make decisions concerning the nature, timing and extent of detailed audit work. The survey includes a timely gathering and analysis of information so that potential audit areas can be identified and plans made to review and test management controls over these areas. Survey work may be more extensive for first time reviews than for previously performed audits.

**Focus Objectives** - Focusing the objectives is a function of the internal control assessment and risk analysis which can be done systematically through the process of the survey.

**Risk Analysis and Internal Control Assessment** - The purpose of the audit survey is to identify areas of potential audit risk and design audit work to minimize that risk. The audit team should target its resources in areas with the most risk. This requires that the audit team gain an understanding of the internal control structure. With this understanding, the team should identify the controls that are relevant to the objectives of the audit. The team should then assess the relative control risk for each control.

There are several approaches to making a risk analysis and internal control assessment. Regardless of the method followed, the team must consider all factors relevant to the audit objective. These factors include materiality,

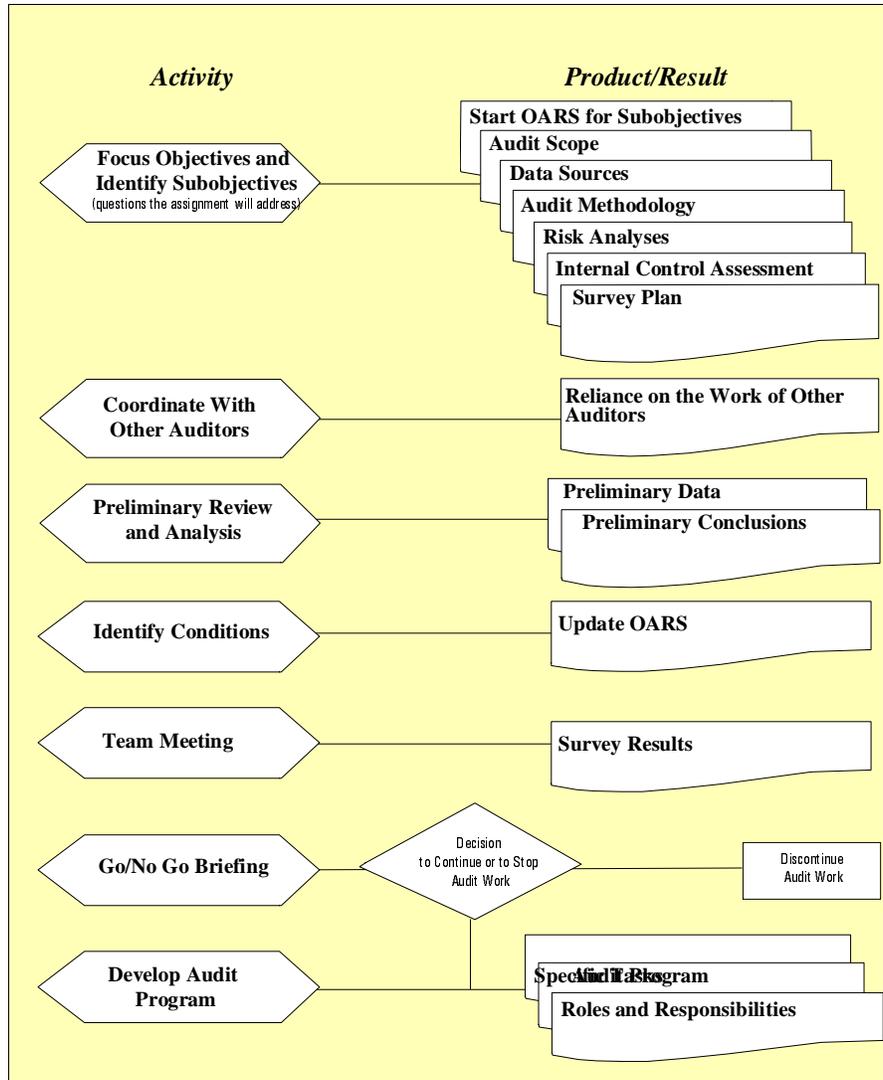


Figure 1-4

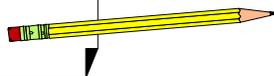
**FOR EXAMPLE:**

*On an audit with the overall objective to determine if a State agency is properly paying medical bills for Medicaid recipients, the audit team would be expected to refine this broad objective. During the assessment of the control environment and the risk analysis the audit team may have identified three aspects of criteria that it considers to have a high potential for error. These may relate to recipient eligibility, amount of payments and timeliness of payments. The team would refine the overall objective by focusing on three subobjectives:*

*Is the State agency ensuring that medical bills are paid for individuals who are eligible according to Federal and State criteria?*

*Is the State agency ensuring that payments made for medical claims are limited to the amount allowable as determined by Federal and State criteria?*

*Is the State agency making payments timely and in accordance with Federal and State criteria?*



significance of legal and regulatory requirements, and the visibility and nature of the government programs.

**Refine Objectives** - Through a careful process of analyzing risk and assessing internal controls, the team must ensure that the audit objectives cover the areas of highest risk consistent with resource limitations. The team should refine the overall objective(s) established in the preliminary planning phase and establish subobjectives when necessary.

Subobjectives are the specific steps that have to be accomplished to achieve the overall objective. These subobjectives can be related to specific criteria, conditions or causes and may be developed throughout the audit process.

**Survey Plan** - A survey plan can be readily developed based on the objectives and subobjectives. The more specific the objectives and subobjectives, the more focused the survey work will be. The survey involves analytical and transaction testing of the controls. The audit team should test enough transactions to be satisfied that the controls actually function as intended.

If there is no adverse condition, the team should close out the audit. On the OARS, the team should identify the objective, criteria and condition. The condition should be expressed in positive terms.

If there are both positive and adverse conditions to report, the positive conditions should be reported, usually in the report summary.

**Coordinate with Other Auditors** - The audit team should determine the extent of reliance on the work of others, such as State auditors, external auditors, internal auditors and other Federal auditors. If the work of others is relied on, it may be documented using the form, **RELYING ON THE WORK OF OTHERS** [SWP-13].

**Preliminary Review and Analysis** - As the survey proceeds, the audit team should continue to update the OARS for each objective or subobjective. The OARS should help the audit team quickly focus on the condition. As the condition is identified, the OARS should be updated. If the condition noted is a negative situation, then the audit team should identify the potential effect of the difference between "what should be" and "what is." The potential cause of an adverse condition should also be determined. Both the potential cause and effect should be discussed with the auditee.

**POSSIBLE  
MEETING AGENDA:**

- OARS*
- "Go/No-Go" Decisions*
- Scope of Audit*
- Staff Time*
- Elapsed Time*
- Criteria Problems*
- Legal Opinions*
- Audit Leads*
- Travel Costs*
- Advanced Techniques*



**Team Meeting** - After preliminary review and analysis, the audit team should meet. The meeting may include the staff auditors, audit manager, advanced techniques staff, Regional Inspector General for Audit Services and headquarters staff. The team will review the OARS and discuss the results of the survey. A survey report may be prepared as a result of the team meeting.

**"Go/No-Go"** - During the survey phase, a "go/no-go" decision is made and documented in the working papers. If a decision is made to continue the review, the team will develop an audit program.

**Audit Program** - The results of the team meeting and the information contained on the OARS becomes the basis for the audit program. Data collection and analysis steps are developed for each objective and subobjective. The audit program may also identify target dates for completion of detailed audit work and preparation of the final report. In subsequent phases of the review, the audit program should be cross-referenced to the working papers supporting the audit steps. Thus, the audit program and the OARS become the audit team's primary mechanisms for assessing the day-to-day progress of the review.

**Audit Leads** - Issues outside the scope of the audit objectives should be identified and discussed at the team meeting.

## **Phase 4 - Data Collection and Analysis**

The data collection and analysis phase (Figure 1-5) focuses on analyzing the evidence to determine cause and quantifying the effect of the condition identified in the survey. Recommendations are also developed to address the identified causes. At this time OARS should be updated to include cause, effect and recommendation.

In the data collection and analysis phase, the audit team focuses on collecting and analyzing the evidence needed to develop and support the findings, conclusions and recommendations. Working papers prepared and analyzed during this phase may include:

Excerpts of auditee policies, procedures and documents

- Write-ups of meetings, inquiries and interviews
- Spreadsheets and schedules
- Computer printouts

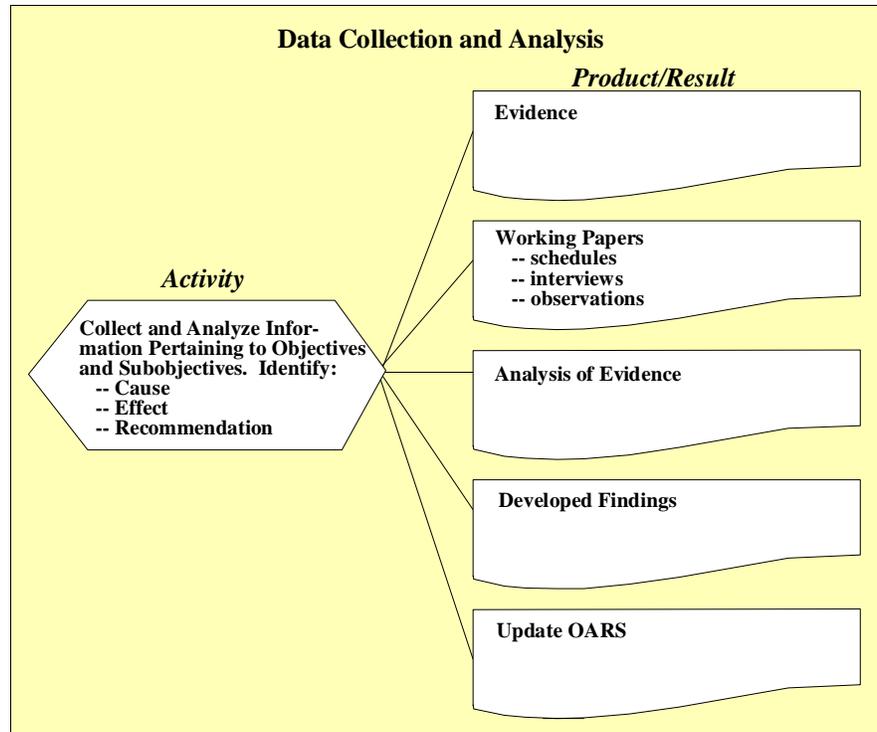


Figure 1-5

Such working papers should be used by the audit team to:

- Support the condition
- Determine the effect
- Identify the cause
- Develop the recommendations

The OARS provides structure to the working papers which assists the audit team in assessing on a day-to-day basis the completeness, accuracy, clarity, relevance and overall quality of the evidence. **Part 2 - Audit Evidence and Working Papers** discusses, in detail, an approach to organizing working papers based on the OARS.

## Phase 5 - Reporting

Auditing and report writing are not separate activities but represent a single integrated process. The audit team should begin anticipating and visualizing the report as early as the preliminary planning phase. Sections of the report should be written as the attributes are developed. Normally the report is assembled and crafted into a cohesive and

comprehensive document after the data collection and analysis phase is completed (Figure 1-6).

**Team Meeting** - Assembling the draft report begins with a meeting of the audit team. The OARS serves as the focal point for the team's discussion and is used in preparing the draft report. The OARS summarizes the work performed and contains the attributes of the findings. Positive findings should be reported.

The audit team outlines the report by organizing and consolidating the OARS into one or more findings through pattern analysis. Pattern analysis is an analytical process whereby the audit team identifies common attributes to organize the findings. Using pattern analysis, the audit team can determine if the multiple conditions identified are the result of one root cause.

For example, five OARS showed five adverse conditions and causes. When comparing these five conditions and causes, it became apparent that four of the five conditions are the result of one root cause. Therefore, since recommendations address root cause, pattern analysis showed two reportable findings rather than five separate findings.

**NOTE:**

*In searching for the root cause, the audit team repeatedly probes the issue by asking "why." For example, it might be apparent that an employee's incorrect action led to the condition. By asking "why," however, the audit team may find that while this may be the immediate cause of the condition, it is not the root, or underlying, cause. In this example, the team might find that the employee's incorrect action was because of inadequate training. Probing further, that is, again asking "why," the team may determine that auditee management had elected not to institute a training program. Thus, a decision by management not to provide training was the root cause that led to the condition.*

Normally, the pursuit of cause should stop when the audit team can recommend corrective action that realistically can be implemented and can be expected to correct the condition.

A record of the team's decisions is included in the working papers and circulated to team participants. This record should also document any decisions not to report a tentative finding along with the team's reasoning.

**Writing the Draft Report** - The draft report organizes the audit results into a logical and coherent document. The report should be organized in sections designed to clearly identify the entity reviewed, the methods used, findings containing well-developed attributes, auditee comments and OIG response and attachments. The specific contents of any report, however, will vary depending on the type of

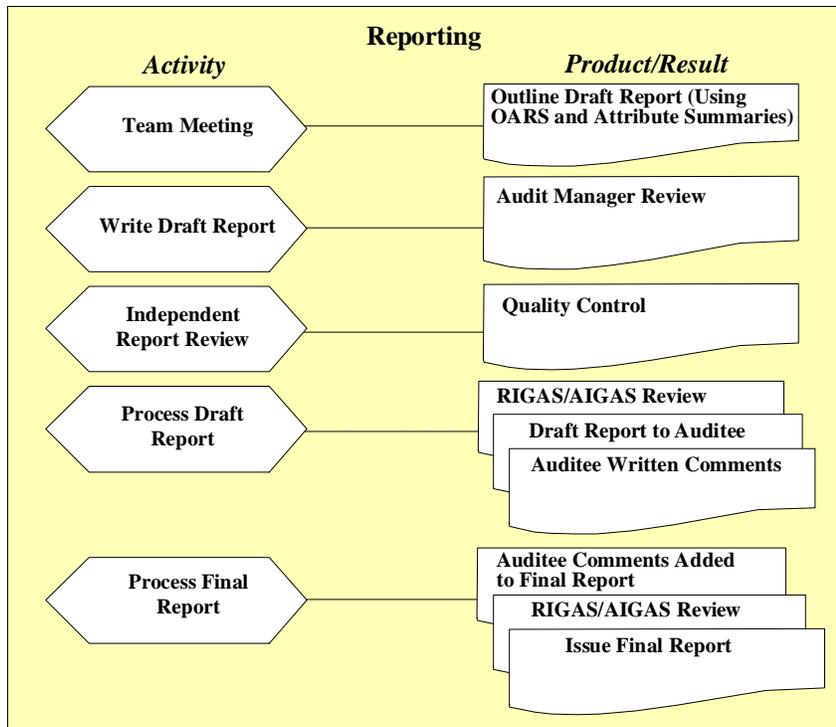


Figure 1-6

review performed. The formats for different types of reports are discussed in the *OAS Audit Policies and Procedures Manual*.

The OARS should be completed at the conclusion of the documentation and analysis phase and, depending on the complexity of the audit objectives and issues, may serve as an outline for the finding. In its simplest form, the opening or summary paragraph of a finding consists of the attributes, as summarized on the OARS, reformatted into a paragraph. Obviously, some rewording may be needed to give the opening paragraph polish. The subsequent sections of the finding can be organized by attribute and should follow the organization of the opening paragraph. The results and conclusions sections of the working papers will provide the basis for writing the findings.

**Independent Report Review (IRR)** - The IRR is an internal quality control procedure that helps to ensure the report is accurate, adequately supported and logical.

**Processing the Draft Report** - Once the draft report is completed, the report is reviewed by the Regional Inspector General for Audit Services (RIGAS) and/or the Assistant Inspector General for Audit Services (AIGAS). If the report will be issued by the region, the RIGAS will usually transmit the draft report to the auditee for comment. If the report is to be signed by the Deputy Inspector General for Audit Services (DIGAS) or the Inspector General (IG), it is reviewed and approved by the AIGAS, and submitted to Audit Policy and Oversight (APO).

The APO performs an independent quality control review to ensure that the report complies with *Government Auditing Standards* and the *OAS Audit Policies and Procedures Manual*. Depending on the addressee, the draft report is then signed by the DIGAS or the IG and sent to the auditee for comments.

**Processing the Final Report** - When the auditee's comments are received, the audit team will review and assess them. If the auditee disagrees with the findings and recommendations of the report, the audit team will attempt to resolve the disagreement. This may require additional work to verify information provided by the auditee or to resolve questions raised by the auditee. Based on the auditee's comments, the audit team may decide to change or delete a portion of the report or prepare a rebuttal to the comments. Changes made to the report should be submitted for IRR.

After the auditee's comments have been incorporated and any additional IRR takes place, the final report is submitted to the RIGAS and/or AIGAS for review and approval.

## **Phase 6 - Postaudit Evaluation**

After the final report is issued, the audit team should perform a postaudit evaluation (Figure 1-7) to discuss the strengths and weaknesses of the audit and to suggest ways to improve the quality of future audit efforts.

Ideally, the team will meet promptly after the final report is issued. The team reviews and discusses the audit from the preliminary planning stage through the issuance of the final report. It is important that each member of the audit team be given an opportunity not only to identify problem areas,

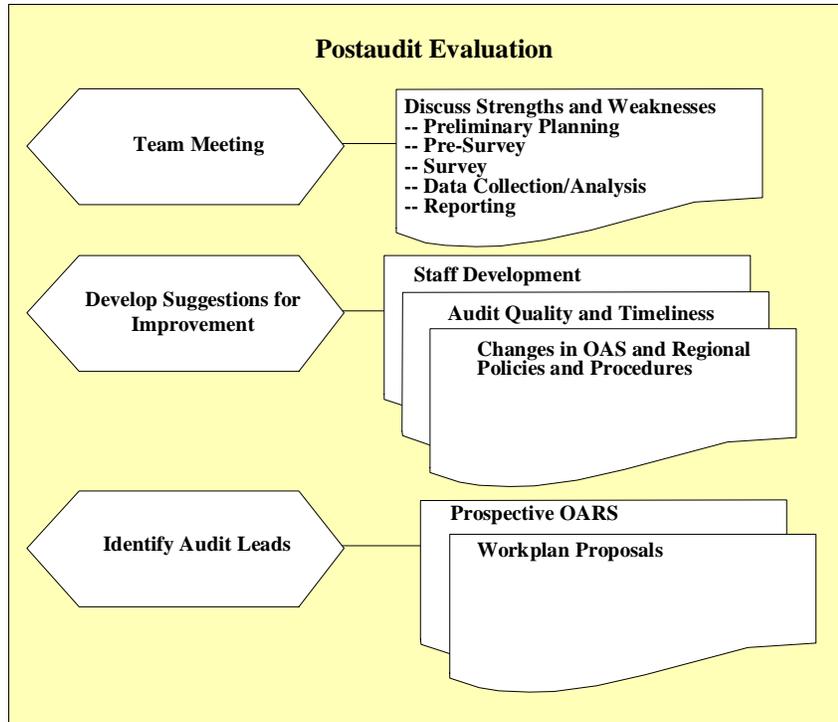


Figure 1-7

but to recognize audit techniques or approaches that were successful.

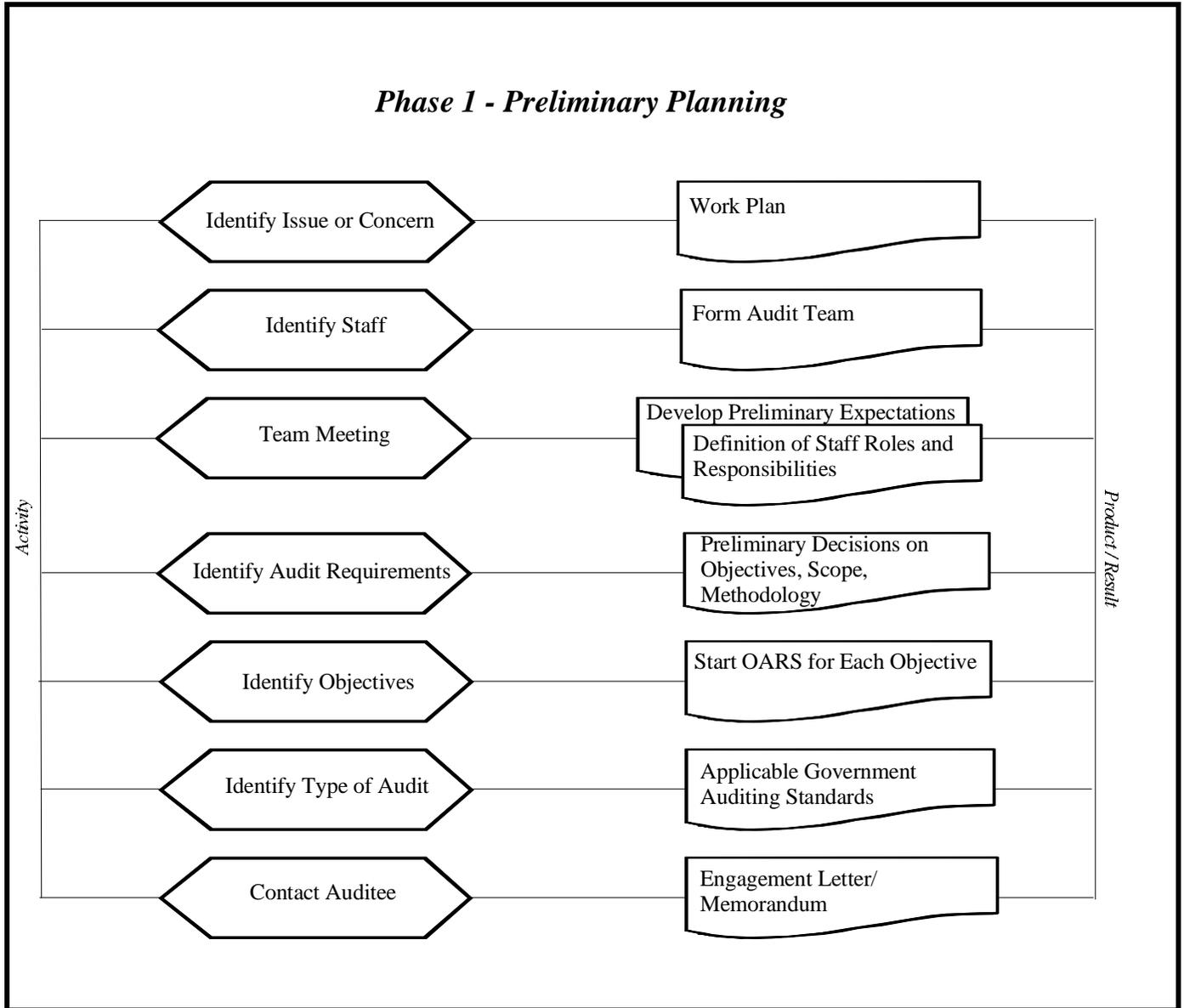
Specific areas to evaluate may include:

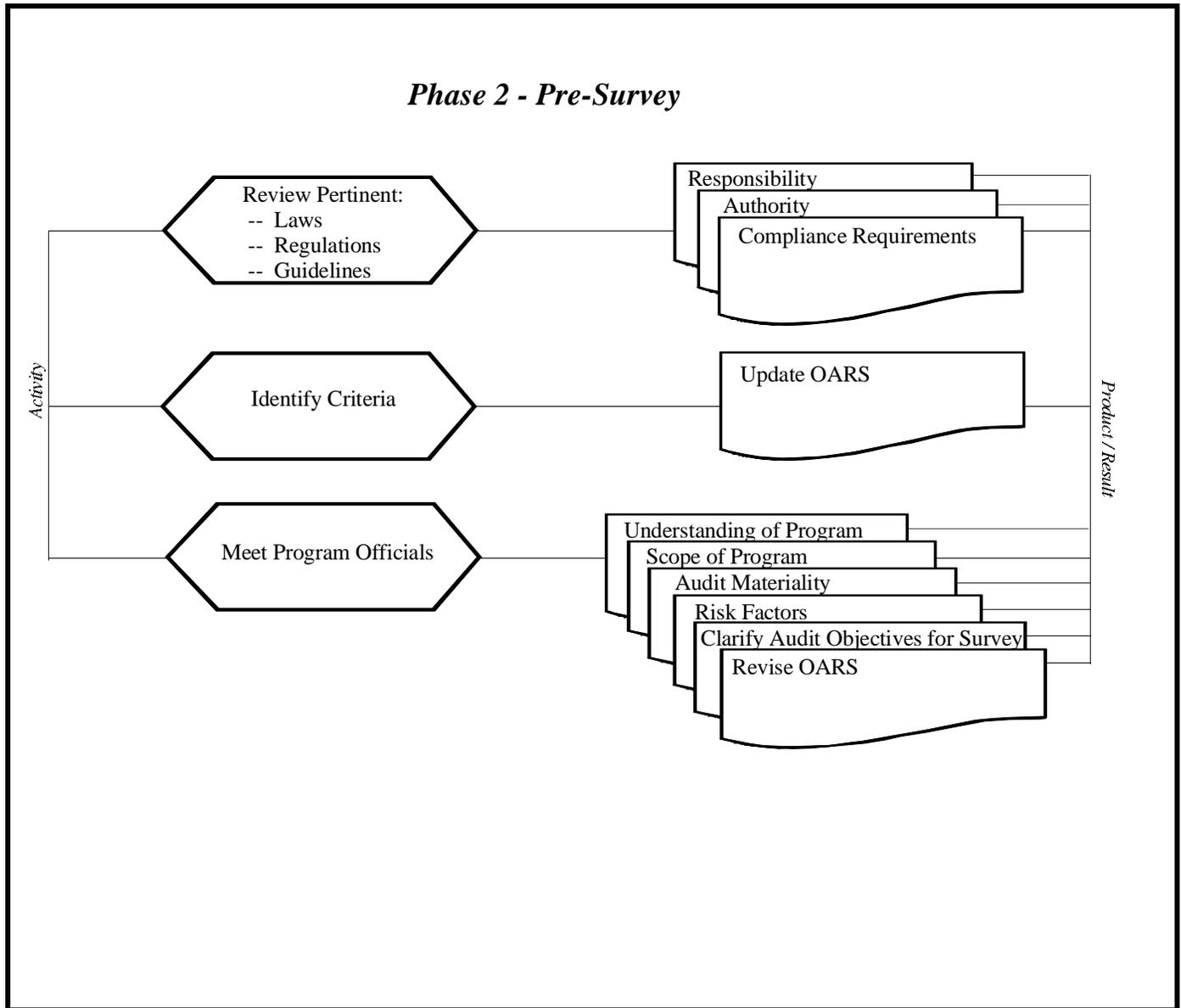
- What were the strengths and weaknesses during each phase of the audit? What additional steps could be included to improve the efficiency of the audit?
- Were the original target dates and staff days budgeted reasonable? If not, why?
- Was the number of assigned staff sufficient? Was the staff adequately trained to complete their assignments? What additional training, if any, is needed?
- Were the OARS used effectively to document and facilitate the audit?
- Was auditee cooperation adequate?

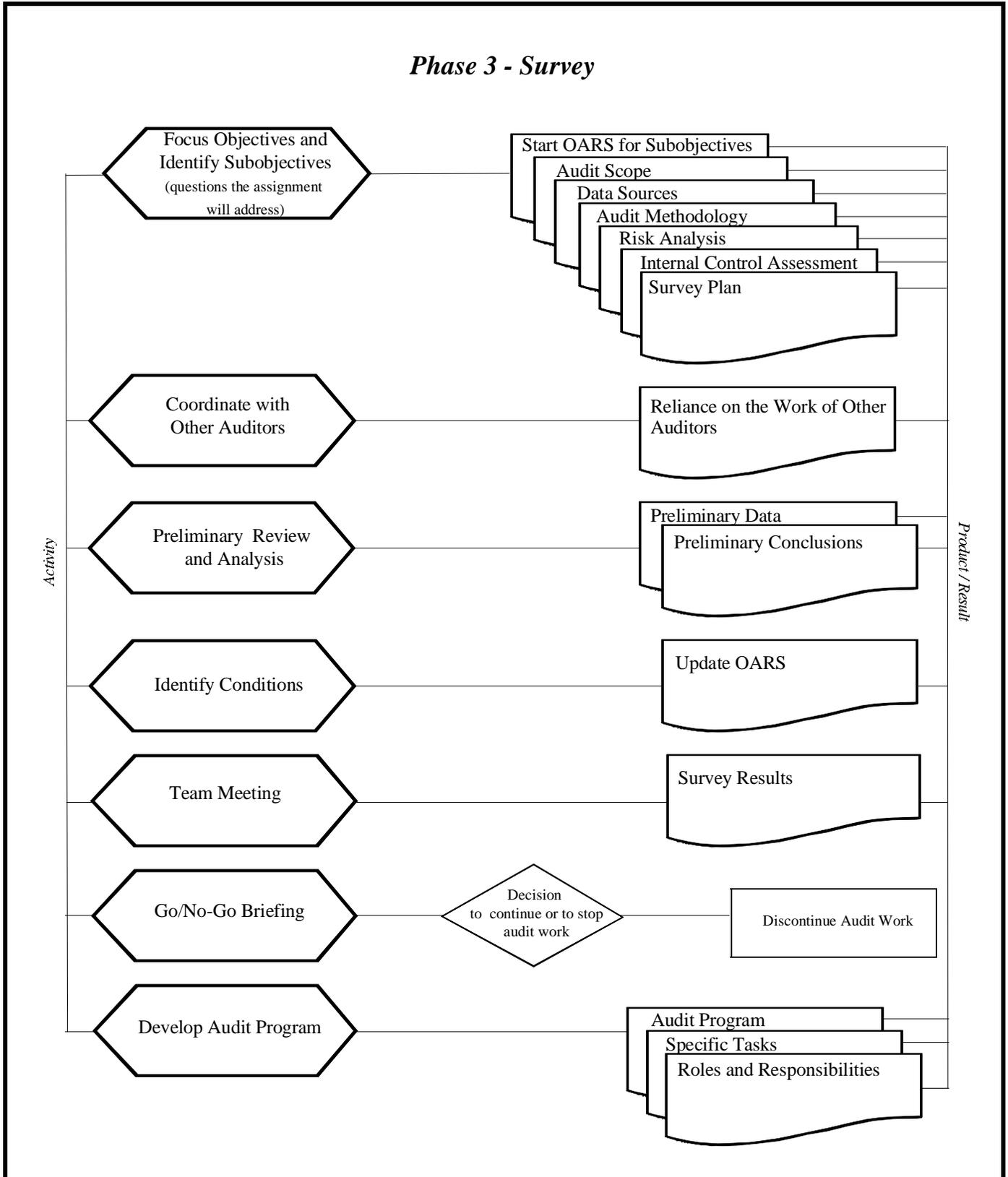
- What areas should be emphasized or de-emphasized in future work?
- What OAS or regional policies can be improved?

Another area to consider is audit leads identified during the audit process. Audit leads can be discussed during this final team meeting. The results should be documented in the working papers. If warranted, a prospective OARS may be prepared and a workplan proposal drafted.

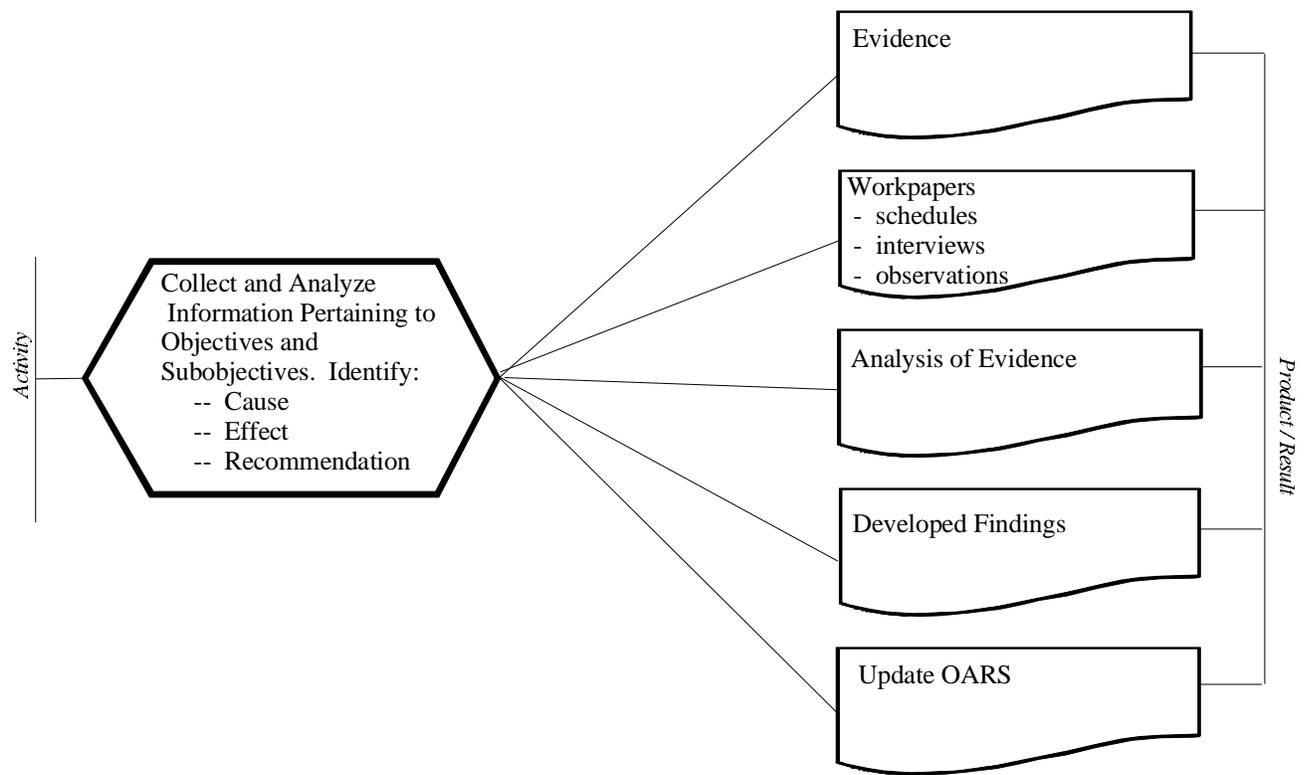
At the conclusion of the postaudit evaluation, the audit team should prepare a postaudit evaluation working paper. The **POSTAUDIT EVALUATION** [SWP-34] may be used to document the results of the evaluation.

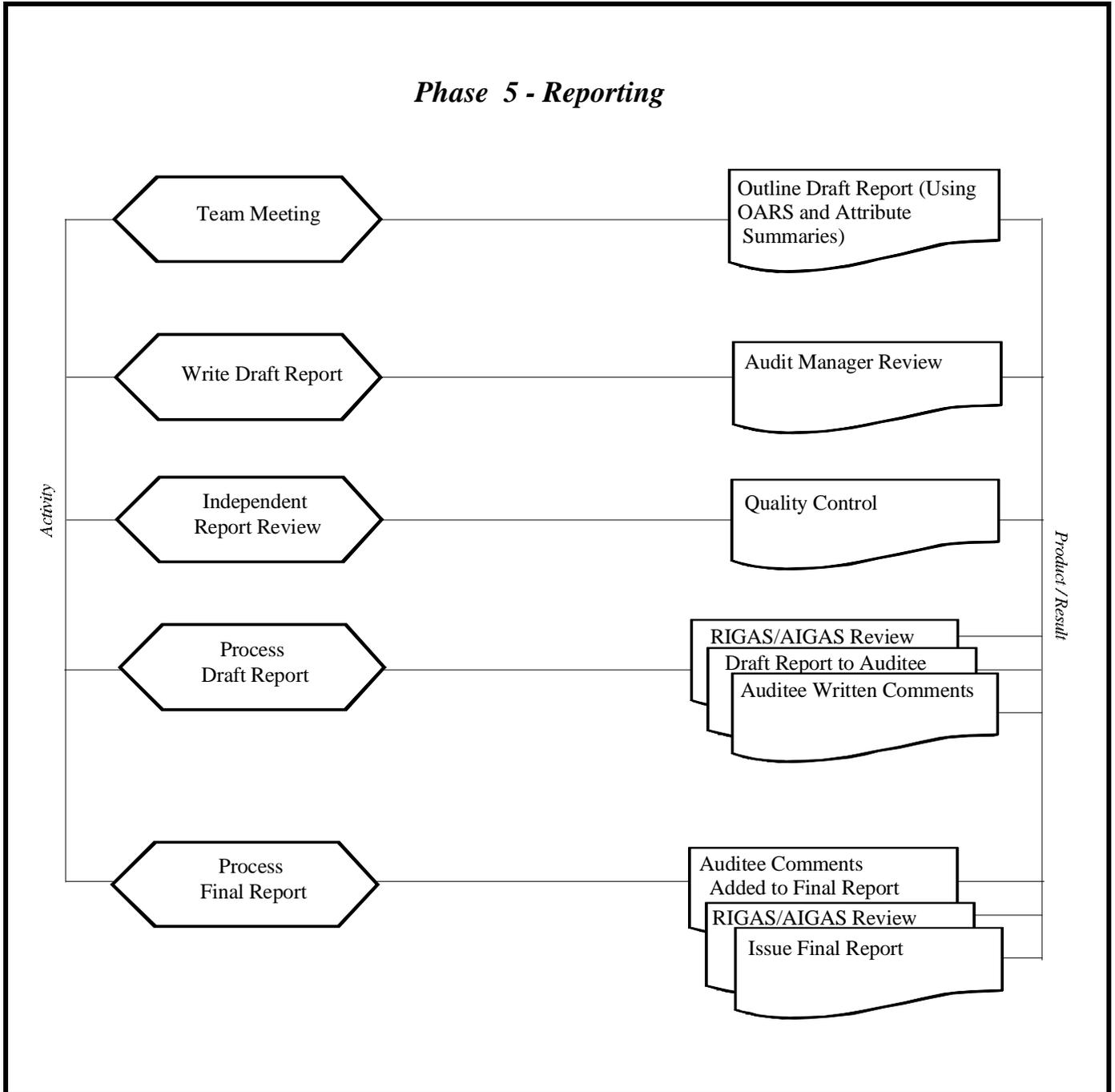


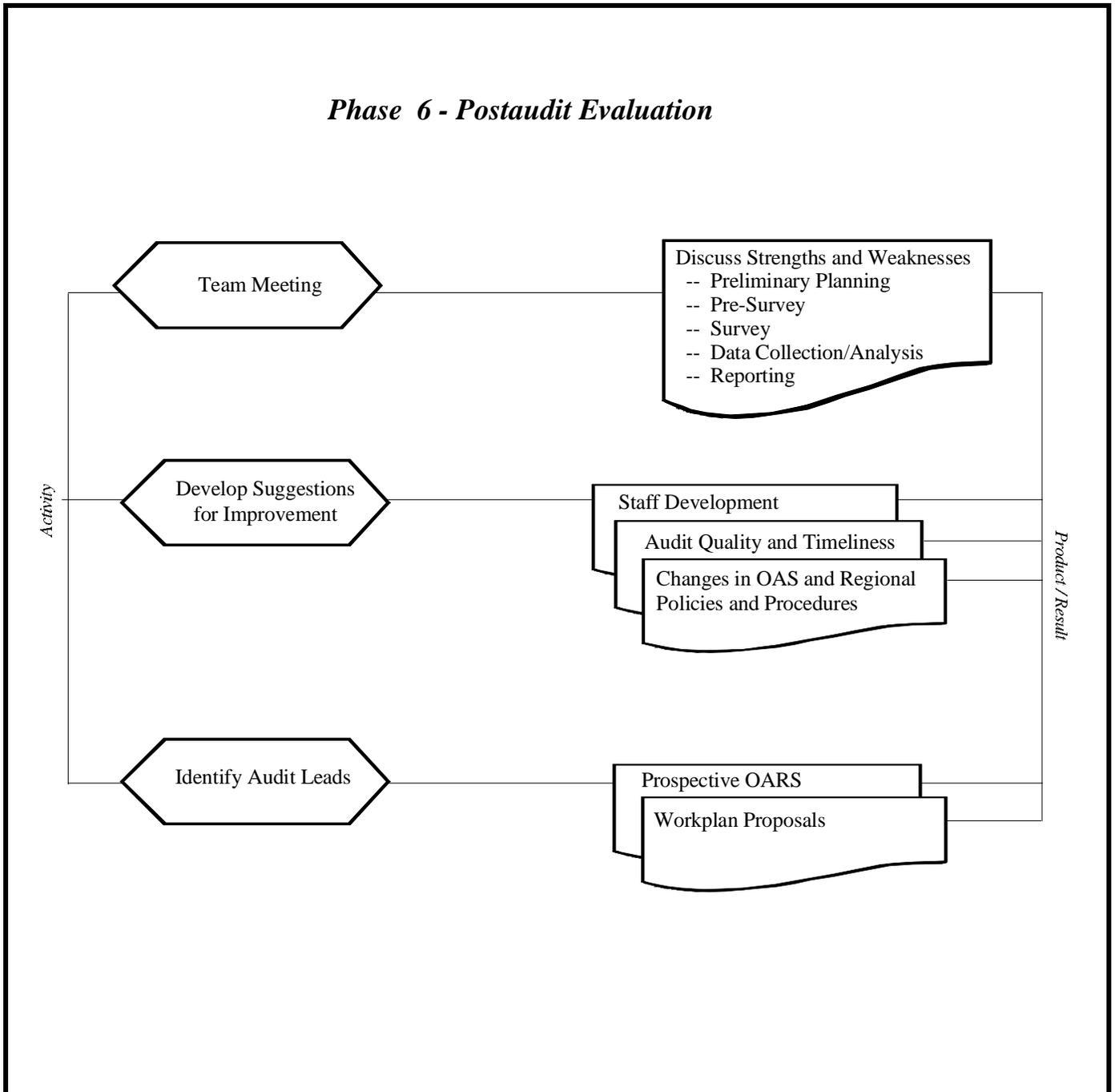




*Phase 4 - Data Collection and Analysis*







# **AUDIT EVIDENCE AND WORKING PAPERS**

The quality of OAS work is measured by the substance of the audit report and the degree to which the reported findings are supported by the evidence and working papers. While the audit report is the end product of the audit team's work, the supporting evidence and working papers, which build toward this final product, are also an important measure of the audit team's performance.

## **INTRODUCTION**

*Government Auditing Standards* state that a record of the auditor's work shall be retained in the form of working papers. Working papers are defined as the documents containing the evidence to support the auditor's findings, opinions, conclusions and judgments. They include the collection of evidence, prepared or obtained by the auditor during the audit.

Working papers provide two forms of documentation:

- Documentation of the audit activities (*the what, why, how, when and by whom*) performed in fulfilling the assignment objectives.
- Documentation of the evidence collected and used to support findings, conclusions and recommendations presented in OAS reports.

Working papers document conformance with *Government Auditing Standards* and compliance with *OAS Audit Policies and Procedures*. A determination that certain standards or *OAS Audit Policies and Procedures* do not apply to the audit should also be documented in the

**NOTE:**

*WORKING PAPERS refer to all records -- manual or automated -- obtained or developed in connection with an audit assignment. In addition, they may include films, pictures, computer tapes, diskettes or other media.*



working papers. This requirement pertains to the standards set forth in ***Government Auditing Standards***, the ***OAS Audit Policies and Procedures Manual***, the supplemental guidance set forth in this handbook and any additional material issued by headquarters or the regional offices.

Working papers serve as a record of the results of the examination and the basis of the auditor's findings and recommendations and, as such, they are the link between the field work and the audit report.

Within the OAS, working papers are subject to review throughout the audit process and may be used by other auditors during subsequent audits. They may be used as evidence in disputes between the Department and its contractors or grantees, either before semi-judicial bodies or in court proceedings. Also, other government auditors (*Federal, State and local*), as well as auditors from independent public accounting firms, may be granted access to OAS working papers.

***Government Auditing Standards*** require audit organizations to establish policies and procedures for the preparation and maintenance of working papers. The ***OAS Audit Policies and Procedures Manual*** adopts ***Government Auditing Standards*** and provides supplemental policies and procedures relating to evidence and the preparation and maintenance of working papers.

***Government Auditing Standards*** prescribe standards for audit evidence and working papers. The standards are discussed below:

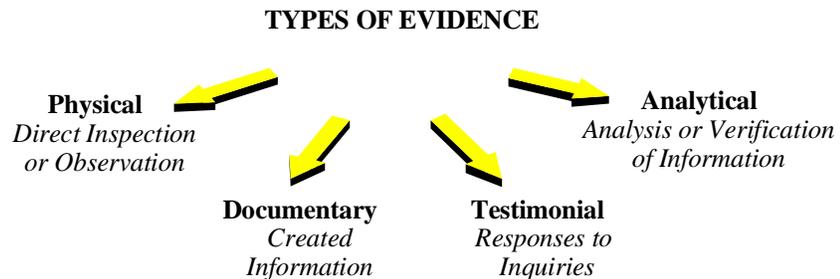
- ✓ Sufficient, competent and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgments and conclusions regarding the organization, program, activity or function under audit.
- ✓ A record of the auditors' work, including the evidence gathered during the audit, is to be retained in the form of working papers.
- ✓ Working papers serve as a record of the results of the audit and the basis of the auditors' opinions.

- ✓ Working papers also provide the principal support for the auditors’ representation regarding observance of the standards, including that the audit was properly planned, supervised and reported.

## TYPES OF EVIDENCE

Evidence may be defined as the data and information which auditors obtain during a review to document findings and support opinions and conclusions. It is that which tends to prove or disprove any matter in question or to influence the auditor’s opinion. Evidence gives the audit team a rational basis for forming judgments. A considerable amount of the audit team’s work consists of obtaining, examining and evaluating evidential matter. The measure of the validity of evidence for audit purposes lies in the nature of the evidence and the judgment of the audit team. In this respect, audit evidence differs from legal evidence which is circumscribed by rigid rules.

Evidence may be categorized as follows.



### Physical

Physical evidence is obtained by direct inspection or observation of activities of people, property or events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed, photographs, charts, maps or other types of physical evidence.

When possible, important inspections or observations should be made by two team members. In some cases, arrangements should be made for agency or contractor

representatives to accompany the audit team to corroborate observations.

## **Documentary**

Documentary evidence consists of created information such as accounting records, invoices, letters, contracts and management information on performance.

## **Testimonial**

Testimonial evidence consists of statements received in response to inquiries or through interviews. Statements important to the audit should be corroborated when possible with additional evidence. Also, testimonial evidence needs to be evaluated from the standpoint of whether the individual may be biased or only has partial knowledge about the matter under audit. Uncorroborated testimonial evidence is the weakest form of evidence.

## **Analytical**

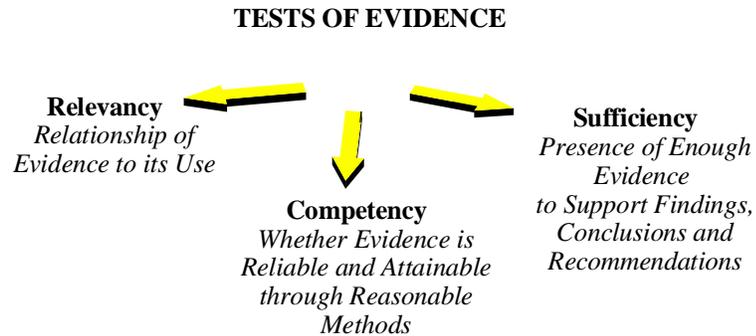
Analytical evidence is obtained through analysis or verification of information. Analytical evidence can consist of:

- Computations (*anything reducible to numbers*)
- Comparisons with:
  - Prescribed standards
  - Past operations
  - Other operations, transactions or performances
  - Laws or regulations
  - Legal decisions
- Evaluations of physical, documentary or testimonial information

## **TESTS OF EVIDENCE**

The working papers should contain the details of the evidence and disclose how it was obtained. The evidence

should be presented following the rules of relevancy, competency and sufficiency.



## Relevancy

Relevancy refers to the relationship of evidence to its use. The information used to prove or disprove an issue is relevant if it has a logical, sensible relationship to that issue. Information that is irrelevant should not be included as evidence or made part of the working papers. However, this requirement does not rule out making appropriate notes or observations relative to other potential problem areas.

Questions that test the relevancy of evidence include the following:

- ✓ Is the evidence related to such factors as background, condition, criteria, effect or cause?
- ✓ Does the evidence make an asserted finding, conclusion or recommendation more believable?

## Competency

Competency refers to whether evidence is reliable and the best attainable through reasonable methods. As reviews are planned and carried out, the soundness and credibility of the evidence should be assessed on an ongoing basis.

In collecting working paper support, audit teams should obtain the "best" evidence possible relative to the review objectives. The following presumptions are useful in judging the competency of evidence.

- ✓ Evidence obtained from an independent source is more reliable than that secured from the audited organization.
- ✓ Evidence developed under a good system of internal control is more reliable than that obtained where such control is weak, unsatisfactory or nonexistent.
- ✓ Evidence obtained through physical examination, observation, computation and inspection is more reliable than evidence obtained indirectly.
- ✓ Original documents are more reliable than copies.
- ✓ Testimonial evidence obtained under conditions where persons may speak freely is more credible than testimonial evidence obtained under compromising conditions (*e.g., where the persons may be intimidated*).

## Sufficiency

Sufficiency is the presence of enough factual and convincing evidence to support the audit team's findings, conclusions and recommendations. Determining the sufficiency of evidence requires judgment. Sometimes, two sources of evidence may conflict. To determine which is more precise, the evidence must be impartially judged for significance and completeness. When appropriate, statistical methods should be used to establish sufficiency.

## COMPUTER-PROCESSED DATA

When computer-processed data is an important or integral part of the audit and the data's reliability is crucial to accomplishing the audit objective, the audit team needs to determine that the data is reliable and relevant. This is important regardless of whether the data is provided to the audit team or the audit team independently extracts it. To determine the reliability of the data, the audit team may either:

- Conduct a review of the general and application controls in the computer-based systems, including tests as are warranted. or
- If the general and application controls are not reviewed or are determined to be unreliable, conduct other tests and procedures such as an internal risk analysis to test for physical security exposures and application controls exposures.

Reviews of general and application controls should be conducted in accordance with the policies and procedures set forth in Chapter 13, *Internal Controls - ADP*, in the *OAS Audit Policies and Procedures Manual*.

## **WRITTEN REPRESENTATIONS**

For financial statement audits, *Government Auditing Standards* require that auditors obtain management representation letters. For financial related audits and performance audits, management representation letters could be obtained if deemed useful and appropriate. The requirement that auditors obtain certain written representation from management is set forth in *AICPA Professional Standards, Client Representations* (AU 333).

## **AUDIT PROGRAMS**

Audit assignments must be planned to meet the requirements of *Government Auditing Standards*. The OAS policies and procedures for planning individual audits are set forth in Chapter 05, *Planning Audit Assignments*, in the *OAS Audit Policies and Procedures Manual*.

Written audit programs are essential for planning and conducting audits efficiently and effectively. An audit program serves to document pertinent planning information and establishes a set of procedures or steps for the auditors to follow. It identifies audit objectives and contains cross-references to applicable sections of the audit work plan, audit instructions and audit policy guides. The audit program also includes or refers to background information

intended for inclusion in the audit report. When properly constructed, the audit program documents and provides:

- ✓ A description of the methodology and suggested audit steps and procedures to be conducted to accomplish the audit objectives.
- ✓ A systematic basis for assigning work to members of the audit team.
- ✓ The basis for a summary record of the work done.

## **ACCESS TO RECORDS**

The legal citation for our primary right of access to records is set forth in the Office of Inspector General (OIG) enabling legislation (5 USC Appendix 3). Enabling legislation of specific programs may also include access language.

If difficulty is encountered in gaining access to records, the staff auditors should consult with their supervisors before taking further action. A sample letter citing the OAS's authority to review records is shown in Figure 2-1.

If a subpoena is needed, the Department's Office of General Counsel, Inspector General Division must be contacted to request preparation of the subpoena. This process should be coordinated through the cognizant Assistant Inspector General for Audit Services (AIGAS).

Failure to obtain information necessary to conduct an audit in accordance with *Government Auditing Standards* should be documented in the working papers. In addition, it should be disclosed in the Scope section of the report along with the known effect it had on the results of the audit.

## **SUBSTANDARD RECORDS**

When an auditee's records considered essential to complete an audit are inadequate or unauditible, the audit team should consider pursuing alternative auditing techniques as a means of accomplishing the audit objectives. Whether to pursue alternative auditing techniques should be based on reasonable economic limits (*i.e., the rational relationship*

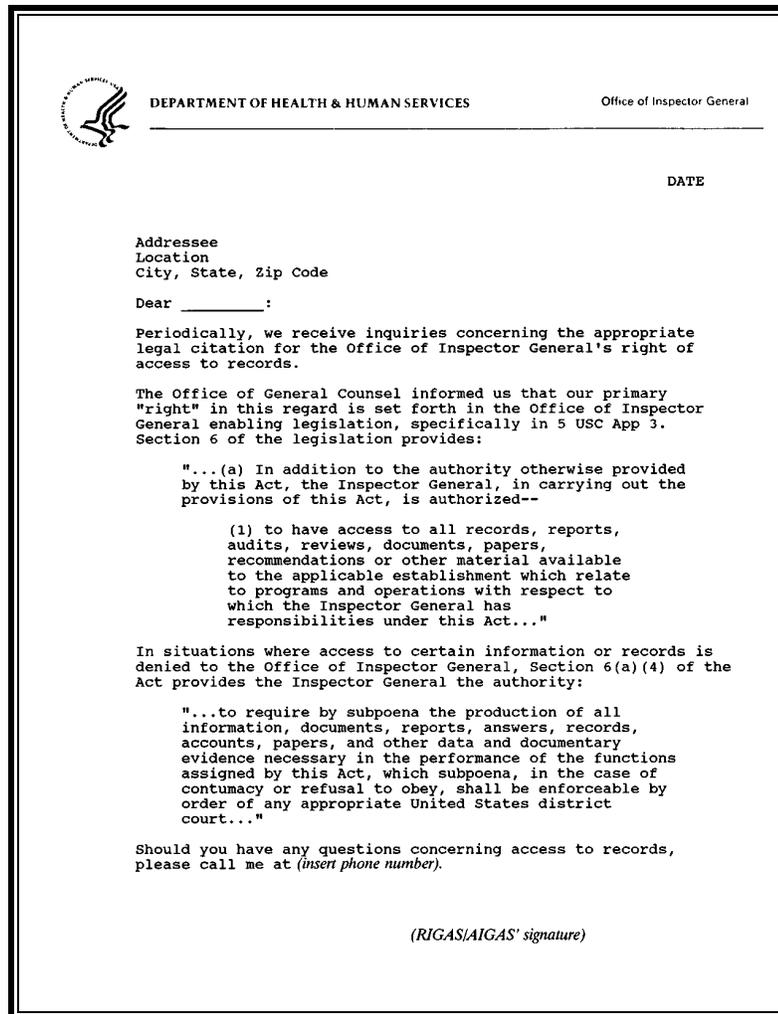


Figure 2-1

*between the cost of obtaining evidence and the usefulness of the information).*

Guidance can be found in Chapter 14, *Evidence and Working Papers*, Section 20-14-40-05, of the *OAS Audit Policies and Procedures Manual* and *AICPA Professional Standards, Analytical Procedures* (AU 329). The decision to pursue or not to pursue such procedures should be documented in the working papers.

## **BASIC PRINCIPLES OF WORKING PAPER PREPARATION**

The following basic principles apply to working papers. The working papers should be:

-  Understandable without the need for detailed supplementary oral explanations.
-  Legible and neatly prepared.
-  Restricted to matters that are materially important and relevant to the objectives of the assignment.

**NOTE:**

*Working papers should be legible, neat, complete, readily understandable and designed to fit the circumstances and needs of the audit team for the particular review objective.*



The procedures followed by the audit team, including the analysis and interpretation of the audit data, should be documented in the working papers. Knowledgeable individuals using the working papers should be able to readily determine their purpose, the nature and scope of the audit work and the preparer's conclusions. Well prepared working papers also permit another auditor to pick up the examination at a certain point (*for example, at the completion of the survey phase*) and carry it to its conclusion.

Information should be clear and complete, yet concise. However, clarity and completeness should not be sacrificed to save time or paper. Information contained in working papers should not be crowded. To prevent crowding, sufficient thought should be given to the content of the working paper before beginning the audit step.

Narrative comments in working papers should normally be double-spaced so that legible insertions and revisions can be made. Each working paper should be limited to only one subject. Further, only one side of the paper should normally be used.

Working papers may be handwritten or computer-generated. Pencil is preferred for noncomputer-generated schedules containing figures which may be changed.

Working papers should be restricted to matters that are significant and relevant to the objectives of the review. Before the audit team develops a working paper analysis, exhibit or schedule, the following should be clearly determined:

- The purpose
- The information needed to complete the analysis

- The location of supporting documentation
- The comparisons needed to prove the condition(s) or conclusion(s).

Unnecessary or irrelevant working papers should not be prepared. If such working papers are inadvertently prepared, they should not be included in the working paper file.

Working papers are generally prepared on letter-sized (8 1/2" x 11") paper. However, in some instances oversized documents may need to be retained (*e.g., 11" x 15" computer printouts, brochures, and other documents longer than 11"*). Oversized documents may be folded to fit the letter-sized format or they may be retained as appendices to the working paper file and bound in accordion files, pressboard data binders or other filing media. For example, copies of booklets furnished by the auditee (*financial reports, etc.*) should be considered for inclusion in a working paper appendix. When making copies of auditee documents, the preferred method is to copy onto 8 1/2" x 11" paper only the relevant excerpts from these large documents.

During the audit, working papers should be maintained in a binder to facilitate their efficient use and ensure against loss or damage.

## **Folder Cover**

Each working paper binder should include a cover sheet as the first page. Information shown on the cover page may include:

- Working paper index series
- Folder number
- Common Identification Number (CIN)
- Assignment title
- Audit period
- Auditee name and address
- OAS office location
- Audit manager and senior auditor

- Auditor-in-Charge and other audit staff
- Legend for tick marks

**FOLDER COVER** [SWP-1] could be used for this purpose.

## **Content of Working Papers**

The content, quantity and type of working papers will be based on the auditors' professional judgment. Factors entering into the judgment include:

- Objective
- Scope
- Degree of reliance on internal controls
- Extent of reliance on the work of others
- Condition of the auditee's records
- Nature of the financial statements, schedules or other information which the auditor is reviewing

Each working paper should generally include the following:

**Heading** - The heading on each working paper can be limited to the CIN for the review or it may be expanded to a more descriptive heading as follows:

- Name of the auditee
- Location of the auditee
- Program audited
- Audit period

Self-adhesive computer-generated labels or a rubber stamp can, in many cases, provide time-saving alternatives for applying headings to working papers.

**Title** - Each working paper should generally contain a concise, descriptive title of the information contained in the working paper.

**Date of Preparation and the Identity of the Auditor** - Both should be included on each working paper. If the date is not critical to the purpose of the working paper, then either the date the working paper was started or the date it was completed is acceptable. However, if the date is critical, then the date that the information is actually entered on the working paper should be used.

**NOTE:**  
*If colors are used to code documents, avoid using light colors such as yellow, pink or gold since they generally do not copy well.*



**Notes and Other Symbols** - Whenever notes or symbols are used (*numbers, letters, stars, check marks, etc.*), they should be explained in the working papers. All notes and symbols should be graphically unique, even if color coded. This is essential in the event the Departmental Appeals Board, courts or other quasi-judicial bodies subsequently need copies of the working papers for resolution of the report findings.

Standardized tick marks are not prescribed for OAS work. The need and use of tick marks should be determined by the audit team. Any tick marks used should be explained in the working papers. Examples of tick marks are as follows:

<b>T</b>	-Traced to Source
✓	-Referencing
✓	-Math Verification, Including Footing and Cross-footing

Figure 2-2

**Tracing Data to Source** -In many reviews, we copy data such as payment information from case files and other records based on sampling techniques. We then prepare schedules where certain data may be extracted from the copied files, analyzed and summarized. In order to reduce the possibility of errors, the audit team should consider independently tracing key data to the source. Generally, team members can trace each other’s working papers. The team member performing the tracing function should mark the items traced and date and show his or her identity on each working paper.

**Verification of Computations** - Computations of key data can be of critical importance in a review. Therefore, they should be independently verified by someone other than the preparer of the working paper.

Generally, team members can verify each other's working papers. On each working paper, the team member performing the verification should identify the computations verified, indicate the date the computations were verified, and identify himself or herself as the verifier.

**Index** - The index (*letter/number*) should be included on each working paper.

**Review** - Evidence of review should be documented in the working papers. **REVIEWER'S NOTES** [SWP-15] may be used for this purpose.

Other information is also essential to understand individual working papers. The following information should be included on each working paper, or series of working papers, whenever applicable:

**Attribute** - Each working paper should identify the attribute(s) of a finding that the working paper addresses. For the purposes of this handbook, condition, criteria, cause, effect and recommendation should be considered as attributes. If the working paper is not related to an attribute, but is necessary as background information, the auditor should state under the attribute classification that this working paper pertains to background.

**Purpose of the Working Paper** - What is the reason for this working paper (*e.g., how does this working paper relate to the audit program and to the audit objective*)?

**Source of Information** - Where did the auditors obtain the information for the working paper? This applies to schedules prepared by the auditee and furnished to the audit team as well as to data compiled by audit team members. Where appropriate, include the name, title or position, and telephone number of the individual providing the

**NOTE:**

*The purpose and source are required to be documented on most working papers. When applicable, it may be necessary to include scope, results and conclusion on individual working papers. For example, if the working paper title or the purpose for preparing the working paper does not satisfactorily address the scope, include a specific scope element. Similarly, in many instances, it may be necessary to include a conclusion on a working paper if such is not readily apparent.*



information. Source citations should be definitive enough to ensure easy reference for the purpose of independent verification, tracing and review.

**Scope of the Examination** - What did the auditors' examination include? This is particularly important when determining the volume of the transactions involved, the number examined, what part of the total volume the audit test represents, why these transactions were selected, what the examination consisted of, and the period covered by the auditors' review. When the analysis is based on a sample of transactions, information should be included to describe the sampling plan. When external factors restrict the audit or interfere with the auditors' ability to form objective opinions and conclusions, the factors should be explained in the working papers.

**NOTE:**

*Scope may include a comparison of data between different periods, matching data to standards, etc.*



**Results** - The results section of the working paper summarizes in objective terms what the auditors found. It does not contain the auditors' opinion. For example:

*Of the 100 travel vouchers we reviewed to determine if the voucher was approved by the employee's supervisor, we found 7 cases where the required approval was not obtained.*

**Conclusion** - A conclusion is the auditor's opinion drawn from analysis and interpretation of the facts contained in a working paper. When the conclusions recorded on one working paper are based in part on information in other working papers, this fact should be noted and appropriately cross-referenced. The conclusion should bear a relationship to the purpose or objective for which the working paper was prepared, and it should not be based on the audit as a whole.

While maximum use should be made of schedules, analyses, reports and other documents prepared by the auditee, the working papers must clearly state the conclusions that are drawn from the auditee's documents.

**NOTE:**

*The attribute, purpose and source are required on most working papers; scope, results and conclusion are required only when necessary. Some of the standard administrative working papers, such as time logs, audit programs and Audit Inspections Management System records (AIMS) will not require any or all of the foregoing citations.*



Whenever an analysis or test involves repetitive working papers having the same attribute, purpose, source, scope, results and conclusion, the detailed citations need be stated only on the first or last working paper in the series.

## **Electronic Working Papers**

Working papers developed on microcomputers generally should be printed and, along with any relevant diskettes, retained in the working paper files. Automated working papers should be sufficiently documented to permit a reviewer to:

- Identify the data processing procedures used.
- Determine how the data processing procedures were utilized.
- Ascertain that the data processing steps, procedures and logic were proper.

Documentation requirements for manually prepared records should equally apply for computerized records. The following aspects should be considered:

- Diskettes should have external labels which state the CIN and name of the assignment. Files stored on the diskettes should be identified.
- Each electronic file should contain a CIN, title, attribute, purpose, source of information, scope, results and conclusion (*if pertinent*) as well as the identity of the preparer and reviewer and related dates.
- The logic used in each application should be documented and retained. Where analyses and assumptions supporting data within a file are not apparent, this information should be disclosed for the benefit of both the reviewer and reader. This information can be made part of the

file, included as a separate file or documented in the working paper.

- Formulas used in performing electronic worksheet computations should be printed and retained in the working papers. Also, spreadsheet verification routines used in reviewing electronic working papers should be documented.

For further guidance on electronic working papers and automated data files, refer to Chapter 07, *Microcomputers*, in the *OAS Audit Policies and Procedures Manual*.

## TYPES OF FILES

In some audits, working papers should be segregated into two categories -- permanent and current. Working papers that may be useful in planning and performing subsequent audits could be retained in a permanent file. Working papers pertaining only to the current audit comprise the current file.

### Permanent File

Permanent files may be appropriate for recurring audits of organizations, programs, activities or functions. Materials contained in permanent files should generally pertain to the entity rather than to a particular audit and be of a continuing nature considered for possible use in future audits. General data obtained during the audit survey phase should also be included in this file. The permanent file could include the following items:

- ☞ Description of the auditee, including type of organization and mission, location, physical and financial size and description of pertinent records.
- ☞ Description of important policies, procedures and controls, including references to pertinent directives, organizational charts and functional manuals.

- ☞ Names, titles and areas of responsibility of key personnel. If this information is not included on organizational charts, it should be referenced to the organizational segments shown on the charts.
- ☞ Audit history which consists of a brief reference to each audit performed, including nature, date and period of audit, and comments on important results. Items for follow-up or review in subsequent audits should be noted.

A permanent file should be updated throughout the audit process.

### **Current Working Paper File**

A current file should be established for each audit and should contain the working papers developed during that audit. Materials contained in current files should be arranged in a logical sequence in accordance with the planned file structure developed as part of the overall audit plan. The arrangement of current files is covered more fully in this handbook under the heading "*Organizing Current Working Paper Files.*"

## **ORGANIZING CURRENT WORKING PAPER FILES**

Well-planned and organized working papers are necessary to achieve a professional quality audit. Information collected during a review is of little value unless it is logically organized and retrievable.

The overall plan for each audit should include a working paper file structure. Each team member should be familiar with the file structure. This section provides an overview on how working papers should be organized.

The first five sections in a set of working papers should consist of the following:

1. Reporting
2. Reviews and checklists
3. Administrative
4. General audit
5. Audit programs and guides

The subsequent working paper sections are organized by audit objectives.

## **Organization by Objective**

Grouping the working papers by objective provides structure and organization to working paper files. Further, within each objective, supporting working papers should be organized by attributes. This type of structured organization:

- Promotes an effective audit process.
- Enables timely development of the first draft of the audit report.

For each audit objective identified in the audit program, a working paper section should be created. Therefore, the number of working paper sections will be dependent on the number of objectives in the audit program (see Appendix).

## **The OARS**

The first working paper in a section should be an OARS. The OARS ties together groups of working papers relating to a particular objective. They provide an orderly and logical flow to the working papers and help in the reviews of particular work segments. When appropriately indexed and cross-referenced, an OARS becomes the focal point in the working papers for a particular work segment and provides a ready point of reference for preparing the draft report.

## Supporting Working Papers

**Background and Criteria** - Following the OARS, the next working papers should contain the background and criteria. Background working papers may include, but not be limited to, documents, write-ups of conferences and interviews, and schedules identifying the nature and purpose of the audited program or entity. Additional information that should be included relates to the scope of the review and other pertinent information that is needed to clarify the auditee's role or relationship to the audited program.

Criteria should include, but not be limited to, pertinent sections of laws, regulations and guidelines that are used to measure the auditee's performance, financial status and/or compliance.

**Condition, Cause and Effect** - Following the working papers for background and criteria are those working papers identifying the attributes of the finding (*condition, cause and effect*). These working papers should include, but not be limited to, documents, memoranda, interviews, schedules and all other pertinent information.

**Discussion with Auditee** - Generally, the final working papers should document any discussions with the auditee about the findings and recommendations.

## INDEXING AND CROSS-REFERENCING

The primary purpose of indexing is to facilitate the cross-referencing of working papers to each other, including the OARS, and to the report. A secondary purpose is to indicate the relationship of the working papers to the particular areas or segments of the audit.

### Indexing

An indexing system should be established for each audit as part of the overall audit plan. It should be simple and capable of expansion as well as tailored to the overall focus of the audit. By following the audit plan, the indexing system permits ready reference to any working paper.

The indexing system should show the logical grouping of interrelated working papers. Appropriate groupings will not only contribute to ease of reference but will assist the auditors' analysis, interpretation and summarization of the results of the audit and facilitate review.

Working papers should be indexed as soon as possible after preparation. Establishing an indexing system early in the audit process will make this task easier.

Because of the diversity of OAS audits, no specific, all-encompassing system of indexing can be prescribed. However, uniform rules and guidelines facilitate a common understanding of an overall system, as well as facilitate review by providing the reviewer an understanding of what to expect in each set of working papers. Accordingly, the indexing system on each OAS audit should be as follows:

 **INDEX LETTERS A THROUGH E** should be used for all audits. The standardized subject letters are as follows:

**(A) Reporting:** Contains final and draft versions of the report, independent reviewer's (INR) notes and the auditor responses, copies of the reports used for the independent report review and all correspondence related to the report. A computer diskette should be included and contain files such as the issued draft and final reports, transmittals, appendices, distribution schedules, etc.

**(B) Review and Checklists:** Contains checklists, review sheets and certification statements.

**(C) Administrative:** Contains administrative documents such as the assignment sheet, time log, etc.

**(D) General Audit:** Contains documents relevant to the audit but not fitting in any of the other sections, usually because they apply to more than one section or the audit as a whole. This could include an entrance conference write-up, follow-up on prior audit findings, etc.

**(E) Audit Programs and Guides:** Contains the audit work program and any other audit guidance material.

☞ **INDEX LETTERS F, G, H, I, ETC.,** should be used for the working papers related to specific objectives of the review. A separate index letter should be used for each objective.

☞ **A TABLE OF CONTENTS** in the front of the first working paper folder will serve as a general guide to the organization of the working paper files. The **MASTER INDEX TO AUDIT FOLDERS [SWP-2]** could be used for this purpose. An abbreviated example is shown in Figure 2-3:

CIN: A-XX-XX-XXXXX		
<u>W/P SERIES</u>	<u>SECTION</u>	<u>FOLDER(S)</u>
A	Reporting	1 of 8
B	Reviews and Checklists	1 of 8
C	Administrative	1 of 8
D	General Audit	2 of 8
E	Audit Programs and Guides	2 of 8

Figure 2-3



In addition, for each working paper folder, there should be **A DETAILED TABLE OF CONTENTS**. The **INDEX TO AUDIT WORKING PAPERS** [SWP-3] could be used to list, in detail, the folder contents. Figure 2-4 is a completed index for the first file folder of a review involving eight file folders:

CIN: A-XX-XX-XXXXX	
<b>CONTENTS</b>	
File Folder 1 of 8	
W/P Series A, B, C, D & E	
W/P NUMBER	WORKING PAPER SECTION
<b>A REPORTING</b>	
A-1	Final Report
A-2	Final Report - Cross-referenced
A-3	Auditee Comments
A-4	Draft Report Issued to Auditee
A-5	Draft Report - Cross-referenced
A-6	Independent Report Review Certification (SWP-33)
A-7	Independent Reviewer's Notes (SWP-32)
A-8	Preliminary Drafts
<b>B REVIEWS AND CHECKLISTS</b>	
B-1	Working Paper Checklist (SWP-28)
B-2	Type of Review and GAGAS Certification (SWP-5)
B-3	Sample Planning Document (SWP-24)
B-4	Estimate Planning Document (SWP-25)
B-5	Sampling and Estimation Working Paper Checklist (SWP-26)
B-6	Sampling and Estimation Reporting Checklist (SWP-27)
<b>C ADMINISTRATIVE SECTION</b>	
C-1	AIMS Records
C-2	Time Record
<b>D GENERAL AUDIT</b>	
D-1	Supervisory Involvement in Preliminary Planning Stages of Audit (SWP-7)
D-2	Contact Log, Write-ups, etc.
D-3	Entrance Conference Record (SWP-18)
D-4	Exit Conference Record (SWP-19)
D-5	Relying on Work of Others (SWP-13)
D-6	Sampling, Planning Document (SWP-24)
<b>E AUDIT PROGRAM AND GUIDES</b>	

Figure 2-4

The following detailed guidance for indexing systems should apply to most OAS reviews:

- The indexing system should be based on an alphanumeric designation. Long and complex index numbers defeat the basic purpose of the system of providing ready reference to working papers. The system should be capable of infinite expansion to adequately incorporate revision and expansion of audit plans. The **INDEX TO AUDIT WORKING PAPERS** [SWP-3] provides a pro forma indexing layout for working paper series A through E. Subsequent working papers should be indexed following the same logic.

For example, in an audit involving direct costs, the index system could be established as shown in Figure 2-5.

## **Cross-Referencing**

Cross-referencing is defined as a notation at one place in the working papers to related information at another place. Cross-referencing may consist of an index page number, line/column of a schedule, reference to a paragraph of a narrative document or any other unique identifier which will pinpoint the location of data in the working papers.

No audit should be considered complete until the working papers are cross-referenced. The audit report is developed through an evolutionary process, including detailed supporting working papers, analyses, OARS, and draft and final reports. Cross-referencing should be ongoing. It is an important audit tool in ensuring that all pertinent facts and conclusions have been considered and that adequate support exists for the audit team's position.

Cross-referencing also facilitates ongoing review. It should enable the reviewer to more quickly find supporting working papers and recognize the relationship between working papers. It also facilitates postaudit review. This may be particularly important because the relationship of one set of facts to another may not be known or readily apparent to the next person who uses the working papers without the benefit of cross-referencing.

**WORKING PAPER SERIES**  
**J through L**

**J** ..... *Direct Labor*  
**K** ..... *Supplies*  
**L** ..... *Travel*

Each separate analysis within the major segment should be numbered consecutively. For example:

J-1 ..... *OARS [SWP-4]*  
J-2 ..... *Reconciliation of Labor Claimed to Tab Listing*  
J-3 ..... *Analysis of Labor Charges for the Month of July*  
J-4 ..... *Analysis of Labor Charges for the Month of November*

If an analysis requires more than one page, number the pages. For example:

J-1/2 ..... *Indicates that this is page 2 of working paper J-1*

Additional alphabetical designations can be used for adding working papers resulting from reviewer's notes or an oversight on the part of the auditor. For example:

J-1a ..... *Provides for additional information concerning the material previously recorded on working paper J-1\*.*

\* Such additional alphabetical levels should only be used for unanticipated working papers and should not be included in the original design of the working paper indexing plan.

Figure 2-5

In a typical review, the following items should be cross-referenced:

- ✓ Working papers to each other, when appropriate
- ✓ Audit program to the working papers
- ✓ The OARS to the working papers

- ✓ Draft report to the working papers
- ✓ Final report to the working papers

## REVIEW OF WORKING PAPERS

The most effective way to ensure the quality and expedite the progress of an audit is for audit team members to review and comment on the working papers of the audit from the start of planning to the completion of audit work and reporting. Participation by all team members in the review of working papers adds fresh insight, assures quality products and seasoned judgment to the work performed by less experienced staff.

The depth of the working paper reviews will vary. Reviews by on-site team members should be accomplished frequently during the audit and are expected to be more detailed than those made by higher-level, off-site audit team members. However, reviews at all levels should be performed on an ongoing basis and documented in the working papers.

The OARS plays a key role in the review process. It provides a quick summary of where the auditor is going, how far the auditor has progressed in getting there and what information has been gathered along the way. Accordingly, it typically serves as the primary communication and review document in an audit. Although the OARS facilitates and expedites the review process, all working papers should be included in the overall review process.

**REVIEWER'S NOTES** [SWP-15] may be used to document the identity of the reviewer and his or her comments and the identify of the auditor and his or her response to the reviewer's comments as well as actions taken.

Additional guidance relative to the review of working papers is contained in Chapter 14, *Evidence and Working Papers*, Section 20-14-130, of the *OAS Audit Policies and Procedures Manual*.

## **INDEPENDENT REPORT REVIEW**

The independent report review (IRR) process is a part of the OAS internal quality control system. Guidelines for selecting the individual who will perform the IRR, referred to as the INR, are set forth in Chapter 30, *Independent Report Review*, of the *OAS Audit Policies and Procedures Manual*. The chapter also describes the responsibilities of the audit team and INR when preparing for, conducting and resolving the IRR process.

The audit team is responsible for assuring that the written product has been cross-referenced to supporting working papers. The OARS is not a supporting working paper but may be used to assist the team in indexing the report. Adequate and easy-to-follow cross-referencing is essential to the performance of the IRR.

All questions, notes or recommendations made by the INR must be answered by the audit manager or designee, to the satisfaction of the INR, before the written product can be issued. If any items cannot be resolved between the INR and the audit manager, the RIGAS/AIGAS, or designee, is to be consulted.

The **INDEPENDENT REPORT REVIEW PROCESSING CONTROL SHEET** [SWP-30] may be used to document various stages of IRR completion. Other specialized forms which may be used include:

- **JUSTIFICATION FOR USE OF GS-12 OR LOWER-GRADE AUDITOR**  
[SWP-31]
- **INDEPENDENT REVIEWER'S NOTES**  
[SWP-32]
- **INDEPENDENT REPORT REVIEW CERTIFICATION** [SWP-33]

## **SAFEGUARDING WORKING PAPERS**

Audit team members are responsible for safeguarding working papers in their custody. Working papers frequently contain information about auditee operations that are of a confidential nature.

To protect auditee information that may be confidential, working papers and data should not be left open to the view of others who may not have a right to examine it. Working papers should also be protected from theft, damage or loss at all times, including during work breaks and overnight or weekend absences of the auditor. This may require the use of file cabinets, desk drawers or briefcases with secure locks.

Special security measures should be used for storing and safeguarding classified information, Privacy Act information and other sensitive material. This includes proprietary data, personnel matters, plans for future operations (*such as planned procurement actions*) and information obtained to support fraud investigations or special congressional requests.

Files with the foregoing type of data should be appropriately labeled on the front cover to provide a reminder of the need for special security measures. Audits involving information which may not be releasable under the Freedom of Information Act (FOIA) should be protected by affixing a red "**WARNING - CAUTION REQUIRED**" label to the binder cover pages and the front of the folders.

## **STORAGE AND RETENTION**

After the conclusion of an audit, the working papers should be removed from the binder. The working papers, together with the **FOLDER COVER** [SWP-1] with identifying information, should be securely fastened with rings or other fasteners. This will minimize the amount of storage space needed and allow the binders to be reused.

Magnetic tapes and diskettes require special storage provisions. Particular care should be taken to ensure that magnetic tapes and diskettes are stored in a cool, dry environment, free of magnets or magnetic fields.

Additional information pertaining to the storage and retention of working papers, including magnetic tapes and diskettes, can be found in Chapter 07, *Microcomputers*; Section 20-07-60, *Security*, and Section 20-07-100, *Documentation on Computer Generated Files*; and Chapter 14, *Evidence and Audit Working Papers*; Section 20-14-60-05, *Electronic Working Papers*; and Section 20-14-160, *Retention*, of the *OAS Audit Policies and Procedures Manual*.

## **ACCESS TO WORKING PAPERS**

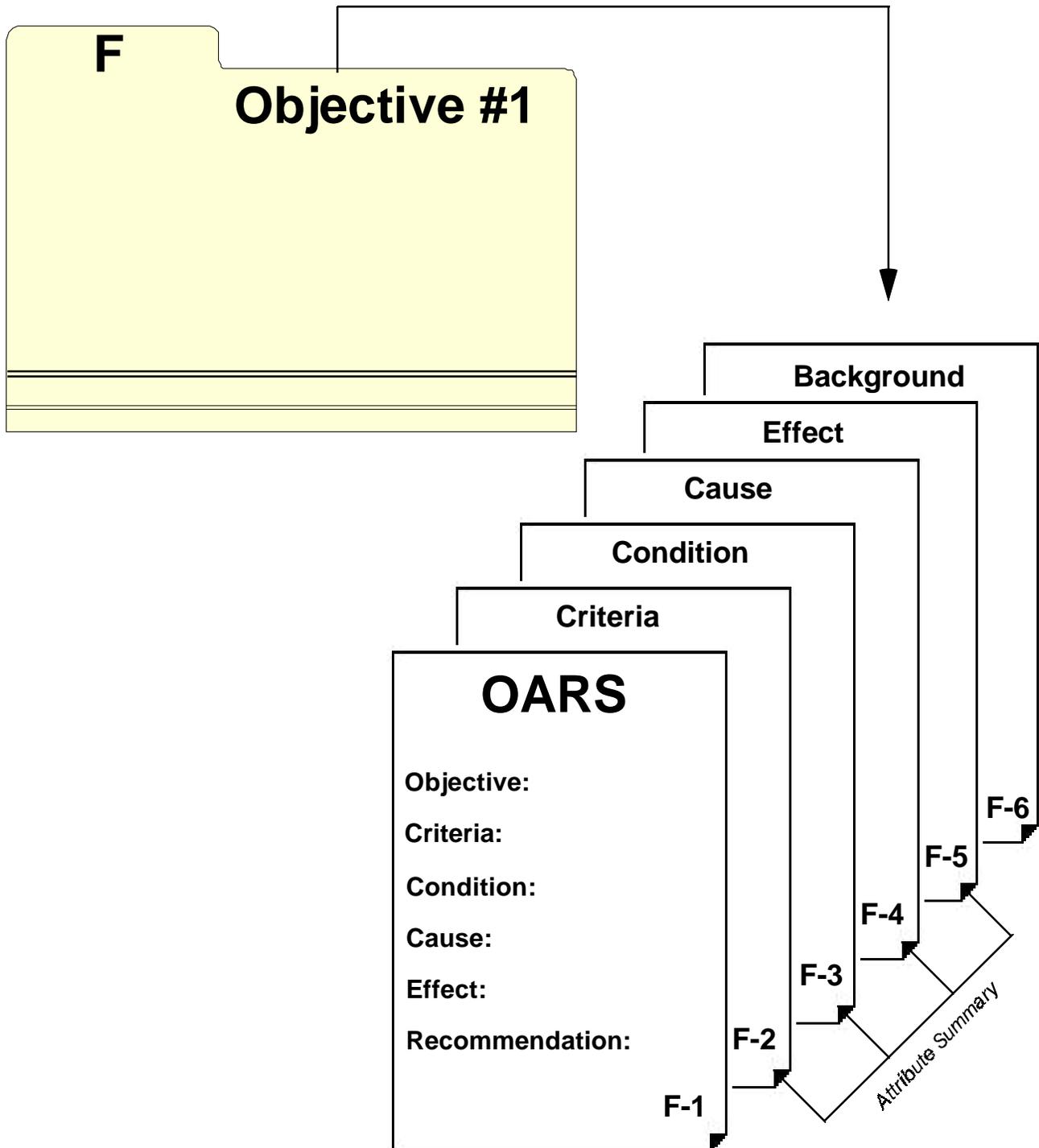
Working papers are considered to be the property of the OAS. Access to OAS working papers by other parties, either during or after completing a review, will be decided by OAS management on a case-by-case basis.

In some reviews, it may be necessary to make copies of working papers available to auditee or program officials in order for them to respond to findings or to take corrective actions. The senior auditor, in consultation with the audit manager, should decide when such action is prudent and necessary.

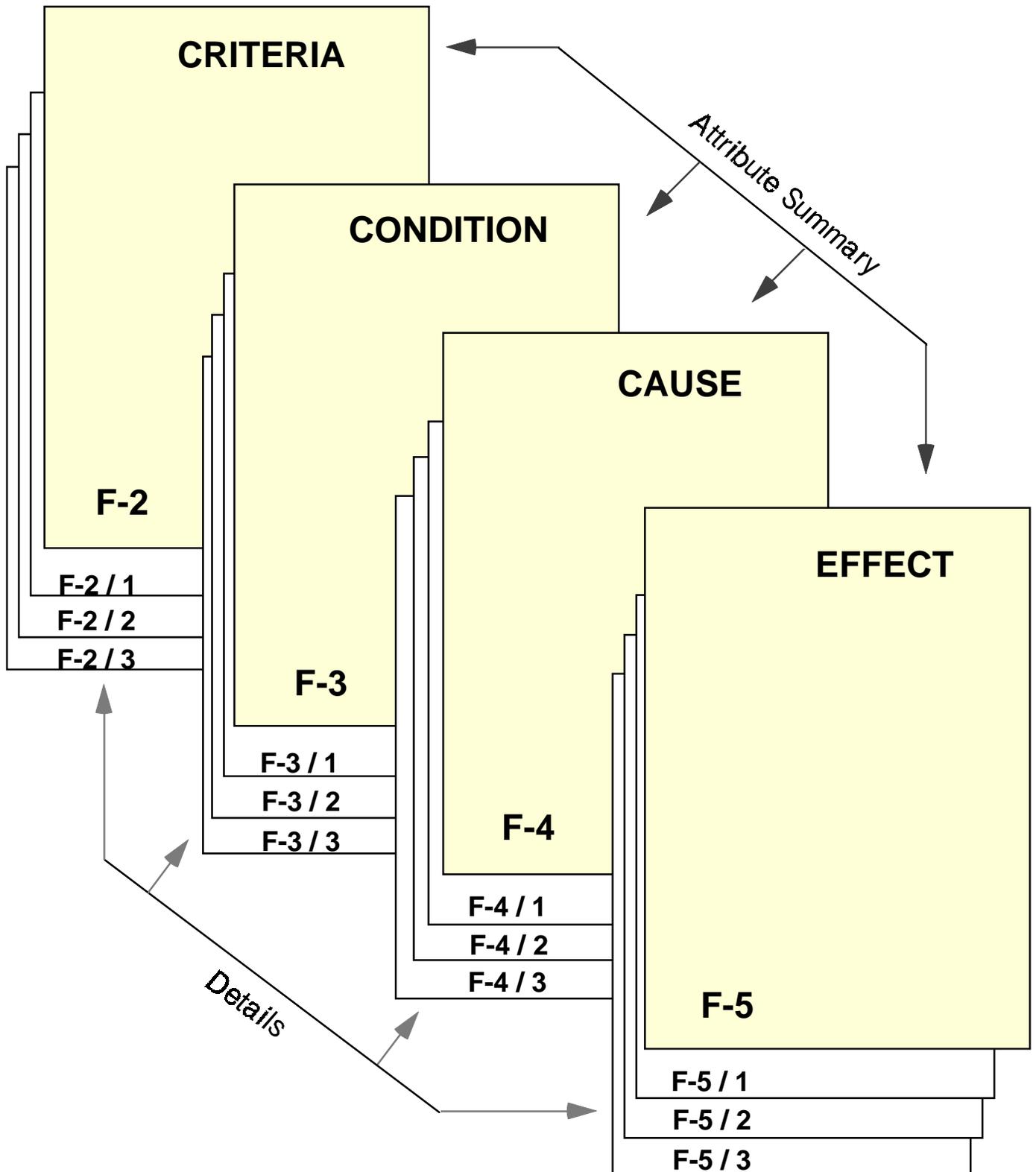
All other requests for access to working papers should be directed to the RIGAS/AIGAS. The Director, Human and Financial Resources, serves as the FOIA Liaison Officer for the OAS. In this role, the Director is responsible for providing guidance when questions arise regarding access to OAS working paper files. (For more information, see Part 9-40, *Freedom of Information Act Requests*, in the *OIG Administrative Manual*.)

# WORKING PAPER ORGANIZATION / INDEXING

---



# WORKING PAPER ORGANIZATION / INDEXING



# **S** *STANDARD WORKING PAPER FORMS*

Working papers that are generally used on OAS audits are presented in this handbook in a standard format. These standard working papers pertain to the administrative requirements of an audit as well as audit work. They are intended to assist in planning, organizing and documenting the audit. Also, they should facilitate review by providing the reviewer with a structured understanding of what to expect in each set of working papers.

Standard working papers are not intended to supersede professional judgment. Because the nature of OAS work is so diverse, there will be reviews for which some of the standard working papers or some aspects of the standard working papers cannot be applied.

The standardized working papers are described below. While most of the forms are optional, some are required by the *OAS Audit Policies and Procedures Manual*. The required forms are marked with a notation in the margin. All of the forms have been automated into a WordPerfect menu system. Copies of the automated WordPerfect files can be obtained from your local ATS staff or supervisory auditor. Instructions for installing and running the automated forms are included in the Appendix.

**SWP-1: FOLDER COVER**

---

Cover page for each working paper folder.

**SWP-2: MASTER INDEX TO AUDIT FOLDERS**

---

Table of contents or index for the working paper file.

**SWP-3: INDEX TO AUDIT WORKING PAPERS**

---

Table of contents for each working paper folder.

**SWP-4: OBJECTIVE ATTRIBUTES RECAP SHEET**

---

Identifies the objective and attributes of an audit and provides a logical and documented progression through the phases of the audit.

**SWP-5: TYPE OF REVIEW AND GAGAS CERTIFICATIONS**

---

Certifies compliance with generally accepted Government auditing standards (GAGAS) requirements. *Government Auditing Standards* place responsibility on the auditor and the audit organization to follow all applicable standards in conducting government audits. The auditors' determination that certain standards do not apply should be documented in the working papers.

**SWP-7: SUPERVISORY INVOLVEMENT IN PRELIMINARY PLANNING**

---

Documents supervisory involvement in the planning phase of the audit.

**SWP-8: AUDIT PLANNING REFERENCE LIST**

---

Documents and cross-references audit planning.

**SWP-9: AUDITEE/PROGRAM OFFICIALS**

---

Identifies names, titles, addresses and telephone numbers of key auditee and program officials.

**SWP-10: RISK ANALYSIS WORKSHEET**

---

Documents the overall level of audit risk.

**SWP-11: INTERNAL CONTROL ASSESSMENT**

---

Documents whether the audit objectives require an internal control study and, if so, identifies the working papers containing the study.

**SWP-12: COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS**

---

Documents pertinent legal and regulatory requirements.

**SWP-13: RELYING ON THE WORK OF OTHERS**

---

Documents the reliance on the work of others.

**SWP-14: FOLLOW-UP ON PRIOR AUDIT FINDINGS AND RECOMMENDATIONS**

---

Documents follow-up on audit findings and recommendations in prior reports.

**SWP-15: REVIEWER'S NOTES**

---

Documents reviews of working papers and reports pertaining to the audit.

**SWP-16: OPEN ITEM LIST**

---

Documents items requiring subsequent action or follow-up.

**SWP-17: TIME LOG**

---

Records time charged to the review.

**SWP-18: ENTRANCE CONFERENCE RECORD** and  
**SWP-19: EXIT CONFERENCE RECORD**

---

Records the entrance and exit conferences.

**SWP-20: RECORD OF CONTACT**

---

Records meetings, conversations and telephone contacts.

**SWP-21: CONTACT LOG**

---

Records brief conferences, conversations or meetings (including those with other auditors, such as the senior auditor, audit manager, RIGAS, headquarters or lead-region staff).

**SWP-22: CONTRACT/GRANT BRIEF**

---

Summarizes terms and conditions of the contract or grant.

**SWP-23: NEED FOR ADVANCED AUDIT  
TECHNIQUES ASSISTANCE**

---

Documents the decision whether the audit will require headquarters or regional involvement in the form of computer expertise, statistical sampling or other assistance with advanced audit techniques.

Form Required by OAS  
Audit Policies and Procedures Manual

**SWP-24: SAMPLE PLANNING DOCUMENT and  
SWP-25: ESTIMATE PLANNING DOCUMENT**

---

Used whenever an audit requires approval of a statistical sampling specialist.

Form Required by OAS  
Audit Policies and Procedures Manual

**SWP-26: SAMPLING AND ESTIMATION -  
WORKING PAPER CHECKLIST**

---

Used by the audit team in reviewing the working papers pertaining to samples and estimates produced during the audit.

Form Required by OAS  
Audit Policies and Procedures Manual

**SWP-27: SAMPLING AND ESTIMATION -  
REPORTING CHECKLIST**

---

Used by the audit team to review sampling results or projections contained in the audit report.

**SWP-28: WORKING PAPER CHECKLIST**

---

Used by the audit team in reviewing the working papers.

**SWP-29: AUDIT REPORT CHECKLIST**

---

Used by the audit team in reviewing the audit report.

**SWP-30: INDEPENDENT REPORT REVIEW  
PROCESSING CONTROL SHEET**

---

Used to document the various stages of completion of the Independent Report Review (IRR).

**SWP-31: JUSTIFICATION FOR USE OF GS-12 OR LOWER-GRADE AUDITOR**

---

Documents the reasons why a GS-12 or lower-grade auditor performed the IRR.

**SWP-32: INDEPENDENT REVIEWER'S NOTES**

---

Documents the independent report reviewer's notes, explanations and recommendations. Auditor's responses are also recorded on this form.

**SWP-33: INDEPENDENT REPORT REVIEW CERTIFICATION**

---

Documents the final review of the audit report; should generally be completed by a GS-13 or higher-grade auditor.

**SWP-34: POSTAUDIT EVALUATION**

---

Summarizes information obtained during the audit that may be helpful during future audits.

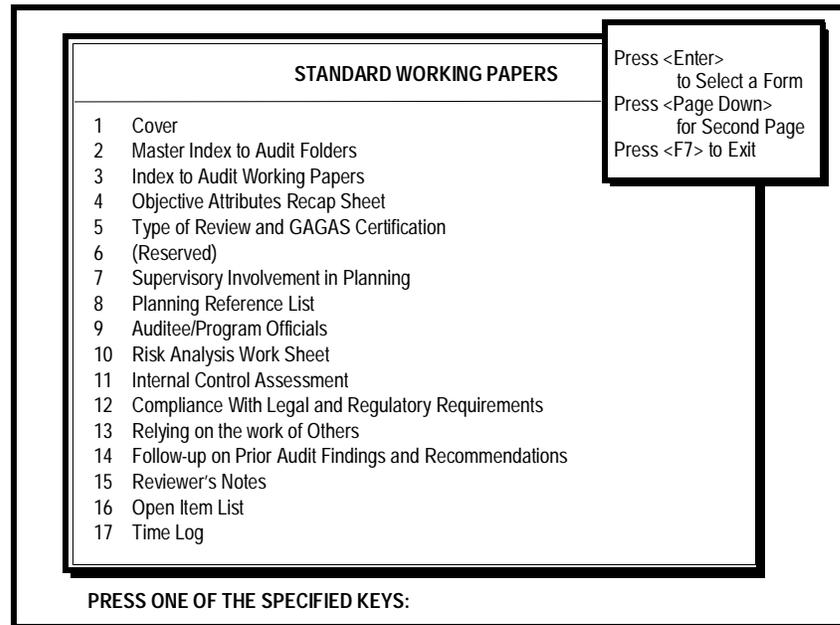
## **AUTOMATED STANDARD WORKING PAPER FORMS**

All of the standard working paper forms are available using the WordPerfect macro feature. After the macro is properly installed, it can be called into action by holding down the ALT key and pressing the letter "L." The macro displays a forms menu and guides the user through the available options. The user will be able to fill in automated forms, view forms on-screen, or print blank forms for handwritten information. Contact your local ATS staff or supervisory auditor for copies of the macro and installation assistance.

### **INSTALLATION**

The macro should be installed as follows:

1. Start WordPerfect
2. Find the name of the subdirectory containing your macro files:  
    Choose Shift F1 (Setup);  
    Choose 6 (Location of Files)  
    Look at item 2 - Keyboard/Macro files  
    Write down the name of the subdirectory \_\_\_\_\_  
    ESC out of menu
3. Copy the files from the WP51 subdirectory on the diskette into the subdirectory named above.
4. Make a subdirectory named C:\PAPERS. Copy all of the files from the PAPERS subdirectory on the diskette into your C:\PAPERS subdirectory. (NOTE: This subdirectory must be on the C:\ drive in order for the macro to work properly.)
5. Activate the macro at a WordPerfect blank screen by holding down the ALT key and pressing the letter "L." The forms menu as shown on the following page should display:



### **USING THE MACRO**

The macro commands are shown in the upper right-hand corner of the screen. Users may choose "Enter" to select a form, "Page Down" to display second page of menu, or "'F7" to exit.

Additional instructions will display if "Enter" is selected. First, the user is prompted to enter a form number, then is given the options of either "F" to fill in the form or "P" to print/view the form.

Choosing "F" will display the selected form and the cursor will automatically stop at designated locations for data input. Various prompts, along with the message "Press <F7> To Continue," will guide the user through the data input fields. When the messages no longer appear, the document can be edited, saved or printed as a regular WordPerfect document. These forms have a minimum number of graphics and should print properly on draft quality printers.

Choosing "P" will bring up an additional prompt of "Print this form? (Y/N)." Answering "Y" will print the form; answering "N" will bring the form into WordPerfect as a regular WordPerfect file. These forms are suitable for printout on laser printers and should look the same as the forms illustrated in this manual.



**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES**

FOLDER NUMBER \_\_\_\_\_ OF \_\_\_\_\_

INDEX SERIES \_\_\_\_\_

**CIN** \_\_\_\_\_

**ASSIGNMENT TITLE:**

**AUDIT PERIOD:**

**AUDITEE NAME/ADDRESS:**

**OAS OFFICE/LOCATION:**

**AUDIT MANAGER:**

**SENIOR AUDITOR:**

**AUDITOR-IN-CHARGE:**

**AUDIT STAFF:**

<b>Tick Mark Legend</b>





# OBJECTIVE ATTRIBUTES RECAP SHEET

OBJECTIVE: \_\_\_\_\_  
\_\_\_\_\_

CRITERIA: \_\_\_\_\_  
\_\_\_\_\_

CONDITION: \_\_\_\_\_  
\_\_\_\_\_

EFFECT: \_\_\_\_\_  
\_\_\_\_\_

CAUSE: \_\_\_\_\_  
\_\_\_\_\_

CORRECTIVE ACTION RECOMMENDED/TAKEN: \_\_\_\_\_  
\_\_\_\_\_

---

**TESTS MADE:**

Audit Universe: \_\_\_\_\_ Sample Size: \_\_\_\_\_  
Method Used to Select Sample: \_\_\_\_\_  
Discrepancies Noted: Number \_\_\_\_\_ Percent \_\_\_\_\_

**Auditee Personnel With Whom Discussed:**

	<u>Name</u>	<u>Title</u>	<u>Date</u>
1.	_____	_____	_____
2.	_____	_____	_____
3.	_____	_____	_____

Comments by Auditee Personnel: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



# SUPERVISORY INVOLVEMENT IN PLANNING

The following areas were covered in planning the review:

<u>TOPIC</u>	<u>AUDITOR'S INITIALS</u>	<u>DATE DISCUSSED</u>
1. Staffing requirements:	_____	_____
2. Individual staff member roles, responsibilities and assigned audit tasks:	_____	_____
3. Scope and objectives of audit:	_____	_____
4. Development and revision, if needed, of the audit program:	_____	_____
5. Audit methodology, including advanced techniques:	_____	_____
6. Reporting requirements (targets, report format and any other special requirements):	_____	_____
7. Time requirements (hours and elapsed time to complete the audit):	_____	_____

# PLANNING REFERENCE LIST

REFERENCE DOCUMENTS	WORKING PAPER REFERENCE
1. Auditee information	<hr/>
2. Contract/grant brief	<hr/>
3. Audit objectives, including reason for the audit	<hr/>
4. Audit scheduling	<hr/>
5. Audit staffing	<hr/>
6. Review/relying on the work of others	<hr/>
7. Follow-up of prior audit findings	<hr/>
8. Audit survey	<hr/>
9. Risk analysis	<hr/>
10. Internal control assessment	<hr/>
11. Review of legal/regulatory require- ments and applicable compliance criteria	<hr/>
12. Sampling plan	<hr/>
13. Type of report	<hr/>
14. Audit program	<hr/>

# AUDITEE/PROGRAM OFFICIALS

1. NAME AND ADDRESS OF AUDITEE:

2. NAME AND TITLE OF OFFICIAL TO WHOM REPORT SHOULD BE DIRECTED  
(auditee executive, HHS management official or requesting  
HHS official):

3. NAME, TITLE AND TELEPHONE NUMBER OF AUDITEE LIAISON OFFICIAL:

4. HHS OPERATING DIVISION ACTION OFFICIAL AND ADDRESS:

5. HHS OPERATING DIVISION AUDIT LIAISON OFFICIAL:

6. NAME, TITLE, ADDRESS AND TELEPHONE NUMBER OF OTHER KEY  
OFFICIALS:

# RISK ANALYSIS WORK SHEET

This working paper documents the overall level of risk in the audit. Successful audits are a result of a number of factors including integrity of auditee, adequate audit manager involvement in planning and performing the audit, an appropriate level of professional skepticism, and allocating sufficient audit resources to high-risk areas. Assessing the audit risk factors requires substantial professional judgment. The particular matters to be considered and the significance of each should be determined based on the circumstances of the audit.

If a particular factor does not apply to this audit, indicate by "N/A." If the conditions or circumstances in this audit indicate higher or lower risk than normal, describe them in the column on the right. If other conditions or circumstances seem important, add them at "Other" on page 2.

<u>FACTOR</u>	<u>RISK INDICATOR</u>	<u>COMMENTS OR DESCRIPTION</u>
INTERNAL CONTROL STRUCTURE	(Low = Adequate) (High = Poor)	
MANAGEMENT OPERATING STYLE	(Low = Group Oversight) (High = Single Person)	
PERSONNEL TURNOVER, INCLUDING SENIOR MANAGEMENT	(Low = Nominal) (High = High)	
EMPHASIS ON MAXIMIZING FEDERAL REIMBURSEMENT	(Low = Little) (High = Very High)	
REPUTATION IN AUDITEE COMMUNITY	(Low = Honest) (High = Adverse Publicity)	
ORGANIZATION OF OPERATIONS	(Low = Centralized) (High = Decentralized)	
DIFFICULT-TO-AUDIT TRANSACTIONS AND BALANCES	(Low = Few) (High = Many)	
PRIOR AUDIT FINDINGS	(Low = Few and Immaterial) (High = Significant)	
RELATIONSHIP WITH AUDITEE	(Low = Recurring Audit) (High = New Audit)	
GOING-CONCERN ASSUMPTION	(Low = Adequate) (High = Questionable)	

# RISK ANALYSIS WORK SHEET

CONSIDERING THE RISK FACTORS IDENTIFIED ABOVE, THE FOLLOWING MODIFICATIONS ARE DEEMED APPROPRIATE:

- NO MODIFICATIONS DEEMED NECESSARY
- ASSIGNING MORE EXPERIENCED PERSONNEL OR INCREASING LEVEL OF SUPERVISION
- CHANGING NATURE, TIMING OR EXTENT OF PLANNED AUDIT PROCEDURES
- EXERCISING A HIGHER DEGREE OF PROFESSIONAL SKEPTICISM
- OTHER (Explain)

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ASSESSMENT OF AUDIT RISK AND EFFECT ON AUDIT PLAN:

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# INTERNAL CONTROL ASSESSMENT

For Financial Audits, complete Section I; for Performance Audits, complete Section II. For audits containing the elements of Financial and Performance Audits, complete both sections. Check the applicable box and identify the working paper (W/P) that provides details and justification for the decision.

<b>Section I. FINANCIAL AUDITS</b>	
<input type="checkbox"/> A review of selected aspects of the internal control structure needs to be performed.	See W/P:
<input type="checkbox"/> An adequate internal control structure does not exist for reliance thereon because of the small size of the auditee.	See W/P:
<input type="checkbox"/> It is more efficient to expand substantive audit tests than place reliance on the internal control structure.	See W/P:
<input type="checkbox"/> The existing internal control structure contains so many weaknesses that the only option is to expand substantive testing.	See W/P:
<input type="checkbox"/> The objectives of this financial related audit did not require an understanding or an assessment of the internal control structure.	See W/P:

<b>Section II. PERFORMANCE AUDITS</b>	
<input type="checkbox"/> An assessment of applicable internal controls is deemed necessary to satisfy audit objectives.	See W/P:
<input type="checkbox"/> A review of internal controls is not considered necessary to satisfy audit objectives.	See W/P:

# COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

**BACKGROUND:** The second supplemental planning field work standard for government financial audits and the third field work standard for performance audits both require auditors to assess compliance with applicable laws and regulations. The *Government Auditing Standards* contain guidance in Chapters 4 and 6 for determining which laws and regulations apply to an audited entity. In addition, it directs the auditor to assess the risk of management's noncompliance with the laws and regulations to determine the nature, timing and extent of testing required. The steps and procedures for testing compliance should be designed to provide reasonable assurance of detecting both unintentional and intentional instances of noncompliance which could have a material effect on audit results.

## **AUDIT ACTIONS:**

1. Identify the pertinent laws and regulations which could have a material effect on the entity's financial status (if doing a financial audit), or the entity's resources, products and services (if doing an economy/efficiency audit), or the manner in which the entity carries out its program objectives (if doing a program audit). The pertinent laws and regulations are copied/briefed on W/P(s): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Assess, for each material requirement, the risk of noncompliance. The review should include both risk analysis and an internal control assessment. The results of the risk analysis and internal control assessment are filed on W/P(s): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Based on the results of the risk analysis and internal control assessment, design steps and procedures to test compliance with the pertinent laws and regulations. The steps and procedures are set forth in the audit program on W/P(s): \_\_\_\_\_  
\_\_\_\_\_

# RELYING ON THE WORK OF OTHERS

**BACKGROUND:** *Government Auditing Standards* provide that auditors may rely on the work of others to avoid duplication of audit efforts. Guidance for determining the extent of reliance to place on the work of others, as well as steps to follow in documenting and reporting on the source(s) of reliance are set forth in Chapter 3 of *Government Auditing Standards* under the third general standard entitled "Due Professional Care."

## DETERMINATION OF OTHER AUDIT COVERAGE:

1. Has the organization, program, activity or function, which is to be the subject of this audit, been audited or reviewed by any other internal or external auditors or program officials, such as:

(a) State/legislative auditors? \_\_\_\_\_  
\_\_\_\_\_

(b) CPAs? \_\_\_\_\_  
\_\_\_\_\_

(c) Other outside auditors, such as Medicare provider auditors?  
\_\_\_\_\_  
\_\_\_\_\_

(d) Internal auditors? \_\_\_\_\_  
\_\_\_\_\_

(e) Other Federal auditors? \_\_\_\_\_  
\_\_\_\_\_

(f) Program officials/technical evaluators? \_\_\_\_\_  
\_\_\_\_\_

(g) Other reviewing entities? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## RELYING ON THE WORK OF OTHERS

2. Did the audit(s)/review(s) provide coverage of some or all of the specific topics or functions which are directly related to the audit objectives of the current audit? \_\_\_\_\_ If "yes," name the entity(s) which performed the audit(s)/review(s) and identify the period covered.

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3. In the case of single audits and, where applicable, other audits noted above, we will build on the work of the other auditors wherever possible. In some cases, we may not be able to use the work of the other auditors, such as when our objectives are outside the scope of coverage of the other audits. If we are unable to build on the other auditors' work, explain the reason(s).

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4. In order to place reliance on the work of other auditors/reviewers, the audit team needs themselves of the quality of the other's work through testing and/or other appropriate methods. The **Government Auditing Standards** should be consulted to determine the extent of testing and other review procedures to be followed. The results of that review (working paper briefs, independent testing of audit results, information regarding the qualifications and independence of the other auditors, etc.) should be reduced to working paper format and filed following this work sheet. The contents of those working papers may be listed for cross-referencing in the space below.

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# ENTRANCE CONFERENCE RECORD

Location/time: \_\_\_\_\_ Date: \_\_\_\_\_

- I. Introductions (List attendees below or on a separate roster - see page 5 of 5):

<u>NAME AND TITLE</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

- II. Opening comments:

A. Office of Inspector General (OIG):

The OIG was created in 1976 under P.L. 94-505 and currently operates under the authority of the Inspector General Act of 1987, P.L. 95-452, as amended. The office has a statutory responsibility to protect the integrity of HHS programs and operations. It functions as an independent and objective unit carrying out comprehensive audits, investigations, inspections and program evaluations to reduce fraud, waste, abuse and mismanagement, and to promote economy, efficiency and effectiveness.

B. Office of Audit Services (OAS):

The OAS is one of three major offices within the OIG for the Department of Health and Human Services (HHS). The OAS, under the direction of the Deputy Inspector General for Audit Services, is responsible for developing and maintaining a comprehensive audit program for the Department and its five Operating Divisions. Audits are performed to provide independent evaluations of HHS programs and operations in order to reduce fraud, waste, abuse and mismanagement, and to promote economy and efficiency throughout the Department.

# ENTRANCE CONFERENCE RECORD

III. Audit information:

A. Purpose: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Background and criteria: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

C. Objectives: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- D. Scope:
1. Audit will be done in accordance with generally accepted government auditing standards.
  2. Audit period: \_\_\_\_\_
  3. Survey/audit guide to be used (optional): \_\_\_\_\_  
\_\_\_\_\_
  4. Other specifics regarding the scope, such as restrictions or special emphasis: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# ENTRANCE CONFERENCE RECORD

E. Time frames:

1. Start: \_\_\_\_\_

\_\_\_\_\_

2. Milestones: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Target for completion of field work: \_\_\_\_\_

\_\_\_\_\_

4. Target for draft report: \_\_\_\_\_

\_\_\_\_\_

F. Staffing and facility needs:

1. Workspace requirements for auditors as follows:

\_\_\_\_\_

\_\_\_\_\_

2. Special assistance required of auditee personnel:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

# ENTRANCE CONFERENCE RECORD

IV. OIG/OAS reporting procedures:

A. Draft report

B. Formal exit conference, if considered necessary

C. Final report

V. Other matters:

A. Key contacts:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

B. Questions and answers: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

C. Other notes of the conference: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



# EXIT CONFERENCE RECORD

Location/time: \_\_\_\_\_ Date: \_\_\_\_\_

I. Introductions (List attendees below or on a separate roster - see page 3 of 3):

<u>NAME AND TITLE</u>	<u>ORGANIZATION</u>	<u>TELEPHONE</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

II. Discussion of draft report background and scope statements for the purpose of assuring that auditee is in agreement with all statements of fact: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

III. Discussion of audit findings and recommendations (list individual findings with auditee comments separately, continuing on page 2 of 3 if necessary): \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_









# SUMMARY CONTRACT/GRANT BRIEF

1. Contractor/Grantee: Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Contract/Grant: No. \_\_\_\_\_  
Effective Date \_\_\_\_\_  
Type \_\_\_\_\_

3. Contract/Grant Performance Period (inclusive dates):  
\_\_\_\_\_

4. Work Description: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Awarding Agency and Location: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# SUMMARY CONTRACT/GRANT BRIEF

6. Total Estimated/Awarded Amount  
 (same as total below): \$ \_\_\_\_\_

Basic Contract/Grant

Description	Award Amount
	\$ _____

Change Orders/Amendments

No.	Date	Description	Award Amount

Total Basic and Amendments \$ \_\_\_\_\_

7. Special Provisions:

	<u>Contract/ Grant Ref.</u>	<u>W/P Ref.</u>	<u>Description</u>
a) Fund Limitations			

# SUMMARY CONTRACT/GRANT BRIEF

b) Property Approvals/  
Limits

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

c) Other Limits  
(travel, etc.)

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

d) Overhead

Contract or Grant Document Specifying,  
Limiting or Incorporating O/H Rates

Rate

Period

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

8. Other Pertinent Information:

_____
_____
_____
_____

# NEED FOR ADVANCED AUDIT TECHNIQUES ASSISTANCE

(Check the box that applies):

- After evaluation of the audit objectives, it has been determined that this review does not require headquarters or regional involvement in the form of computer expertise and/or assistance with statistical sampling, regression analysis or other advanced audit techniques. (Briefly explain basis of decision.)

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- After evaluation of the audit objectives, it has been determined that this review does require headquarters or regional involvement in the form of computer expertise and/or assistance with statistical sampling, regression analysis or other advanced audit techniques. (Briefly explain this determination, include the proposed headquarters and/or regional role, and provide a cross-reference to the working papers which document the assistance.)

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# SAMPLE PLANNING DOCUMENT

<u>APPROVALS</u>	<u>SIGNATURE</u>	<u>DATE</u>
Auditor-In-Charge		
Senior Auditor		
Audit Manager		
Statistical Specialist		
AIGAS*		
Director, PQC*		

1. Review Objective:

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2. Population:

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3. Sampling Frame:

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4. Sample Unit:

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# SAMPLE PLANNING DOCUMENT

5. Survey and Background Information:

---

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6. Sample Design:

---

---

7. Sample Size:

---

---

8. Source of Random Numbers:

---

---

9. Method of Selecting Sample Items:

---

---

10. Review Time per Sampling Unit:

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11. Characteristics To Be Measured:

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# SAMPLE PLANNING DOCUMENT

12. Treatment of Missing Sample Items:

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13. Estimation Methodology:

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14. Other Evidence:

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15. Description of How Results Will Be Reported:

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\* Approval must be obtained from the responsible office (AIGAS) and from the Director, Policy and Quality Control (PQC), whenever:

- Monetary recoveries are expected to exceed \$5 million; or,
- Estimated savings or cost avoidance related to a recommendation are expected to exceed \$25 million; or,
- The plan is for a nationwide review involving more than one region; or,
- The review will result in a report for the IG's signature.

# ESTIMATE PLANNING DOCUMENT

<u>APPROVALS</u>	<u>SIGNATURE</u>	<u>DATE</u>
Auditor-In-Charge	_____	_____
Senior Auditor	_____	_____
Audit Manager	_____	_____
AIGAS*	_____	_____
DIRECTOR, PQC*	_____	_____

1. Review Objectives:

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2. Description of Estimates To Be Calculated:

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3. Estimation Methodology:

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# ESTIMATE PLANNING DOCUMENT

4. Sources of Data:

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5. Validation of Data Sources:

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6. Reasons for Using Data:

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\* Approval must be obtained from the responsible office (AIGAS) and from the Director, Policy and Quality Control (PQC), whenever:

- p Monetary recoveries are expected to exceed \$5 million; or,
- p Estimated savings or cost avoidance related to a recommendation are expected to exceed \$25 million; or,
- p The plan is for a nationwide review involving more than one region; or,
- p The review will result in a report for the IG's signature.

**NOTE:** THIS FORM SHOULD BE USED WHEN ESTIMATES ARE CALCULATED USING DATA AND INFORMATION OTHER THAN OAS SAMPLE RESULTS.

# SAMPLING AND ESTIMATION WORKING PAPER CHECKLIST

	MARK ANSWER YES OR NO*	W/P REFERENCE
1. Was the regional Specialist involved in sampling plan development?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
2. Was the sampling plan approved by:		
a. The Specialist?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
b. The responsible office?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
c. PQC?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
3. If modifications were made to the sampling plan, were the modifications approved by:		
a. The Specialist?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
b. The responsible office?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
c. PQC?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
4. Was the Specialist consulted regarding the interpretation of the data?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
5. Did the Specialist review all estimates relevant to the review objectives?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
6. Did the Specialist review the results as reported?	<input type="checkbox"/> Yes <input type="checkbox"/> No	

\* An explanation is required for every "NO" answer. Use the space provided below to provide the explanatory comments. (Key the explanations to the appropriate question number.)

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# SAMPLING AND ESTIMATION REPORTING CHECKLIST

	MARK ANSWER YES OR NO*	REPORT REFERENCE (Page, Line)
1. Does the report provide: <ul style="list-style-type: none"> <li>a. An explanation for any qualifications?</li> <li>b. An identification of organizations and geographic locations at which review work was conducted, the time periods of the field work, and the time periods of the transactions reviewed?</li> <li>c. Estimation methodology?</li> <li>d. Point estimates for the variables being reported?</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
2. For statistical or nonstatistical sampling, does the report provide: <ul style="list-style-type: none"> <li>a. A description of target population, sampling frame and sample unit? (Is there an explanation of the relationship between the target population and what was reviewed?)</li> <li>b. A description of characteristics measured?</li> <li>c. Sample size?</li> <li>d. Population and sample information? (Does it include frequency of occurrence of errors relative to the number of cases or transactions tested and the relationship of the findings to entity's operations?)</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	

# SAMPLING AND ESTIMATION REPORTING CHECKLIST

	MARK ANSWER YES OR NO*	REPORT REFERENCE (Page, Line)
3. For statistical sampling, does the report provide:  a. Whether the sample design was a simple random, stratified, multi-stage or another type of sample design? A description of the sample design and selection?  b. Precision for the variables (both attribute and variable estimates) being reported or the confidence intervals?  c. For monetary adjustments, the lower bound of the 90 percent two-sided confidence interval for the recommended recovery?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
4. For nonstatistical sampling, does the report provide:  a. A description of the sample design and sample selection?  b. A description of the selection of any additional items, site or time periods surveyed?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
5. Does the report include sufficient supporting data to make a convincing presentation of the findings?	<input type="checkbox"/> Yes <input type="checkbox"/> No	

# SAMPLING AND ESTIMATION REPORTING CHECKLIST

	MARK ANSWER YES OR NO*	W/P REFERENCE
6. Was the following supplementary documentation copied for submission with the report to the responsible office and PQC:		
a. Approved sampling or estimation plan?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
b. Approved modification to plan?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
c. For statistical samples, appraisal results from OAS Statistical Software program and copies of data files processed?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
d. Explanation of the estimation methodology, if not included in the report or plan?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
e. Specialist comments on the estimates and reporting of results?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
f. Completed Sampling and Estimation - Working Paper Checklist and Sampling and Estimation - Reporting Checklist?	<input type="checkbox"/> Yes <input type="checkbox"/> No	

\* An explanation is required for every "NO" answer. Use the space below and/or additional pages to provide the explanatory notes. (Key the notes to the checklist item numbers.)

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# WORKING PAPER CHECKLIST

<u>VERIFIED BY</u>	
<u>NAME</u>	<u>DATE</u>

## WORKING PAPERS

Do they:

- |  |       |       |
|--|-------|-------|
| 1. Contain the Common Identification Number (CIN)?   | _____ | _____ |
| 2. Contain the name of the auditee, location, program audited and title of working paper?                      | _____ | _____ |
| 3. Contain legends of tick marks and other unique symbols?   | _____ | _____ |
| 4. Show date of preparation and the auditor's signature?   | _____ | _____ |
| 5. Show reviewer's signature on individual working papers (or, if appropriate, on a series of working papers)? | _____ | _____ |
| 6. Show source, purpose, scope and conclusion, (where appropriate)?  | _____ | _____ |
| 7. Contain indexing and cross-referencing to and from other applicable working papers?                         | _____ | _____ |
| 8. Answer the audit program step and address the audit objective?  | _____ | _____ |

## WORKING PAPER FILES

Do they contain:

- |   |       |       |
|---|-------|-------|
| 1. The name of the auditee, location, program audited, CIN, folder number and total number in the series on the front of each folder? | _____ | _____ |
|---|-------|-------|

# WORKING PAPER CHECKLIST

	<b>VERIFIED BY</b>	
	<b>NAME</b>	<b>DATE</b>
2. An <u>Index to Audit Working Papers</u> ?	_____	_____
3. A logical, neat and uniform arrangement of the working papers?	_____	_____
4. A write-up of the entrance and exit conferences?	_____	_____
5. A write-up of other meetings, where appropriate (HHS Operating Division staff, auditee officials, etc.)?	_____	_____
6. Copies of pertinent correspondence?	_____	_____
7. Evidence of coordination with State or other independent auditors, if applicable?	_____	_____
8. An AIMS Basic Audit Record Sheet?	_____	_____
9. Reviewer's notes that have been answered and necessary revisions made to the working papers and/or draft report?	_____	_____
10. Copies of draft and final reports:		
a. Initial draft(s)?	_____	_____
b. Draft issued to auditee?	_____	_____
c. Final report, including transmittal letter?	_____	_____

# WORKING PAPER CHECKLIST

		<b>VERIFIED BY</b>	
		<b>NAME</b>	<b>DATE</b>
11.	An audit program? With respect to the audit program:		
a.	Are the objectives and scope of the audit stated?	_____	_____
b.	Is background data included?	_____	_____
c.	Is the audit methodology stated?	_____	_____
d.	Is the report format included?	_____	_____
e.	Are the audit steps cross-referenced to the working papers?	_____	_____
f.	Where applicable, is time budgeted by major audit segment?	_____	_____
12.	Evidence of review of the auditee's internal controls?	_____	_____
13.	Evidence of review of the prior audit working papers and report?	_____	_____
14.	Schedule showing time expended by auditor?	_____	_____
15.	Evidence of supervisory involvement in planning?	_____	_____
16.	A statement on compliance with <i>Government Auditing Standards</i> ?	_____	_____

# AUDIT REPORT CHECKLIST

	<u>VERIFIED BY</u>	
	<u>NAME</u>	<u>DATE</u>
1. Are the reports cross-referenced to the working papers?	_____	_____
2. Is a copy of the auditee's official written comments on the draft report included in the working paper file?	_____	_____
3. Is a transmittal letter attached?	_____	_____
4. Is a report distribution list attached?	_____	_____
5. Are figures used uniformly throughout the report (summary, findings/recommendations and exhibits)?	_____	_____
6. Are the dates of the audit, title of the report and the name of auditee consistent on the cover and throughout the report?	_____	_____
7. Does the Scope section of the report include appropriate comments regarding internal controls?	_____	_____
8. Do the recommendations contained in the report follow from specific findings included in the report?	_____	_____
9. Does the Summary section of the report contain the audit objectives and address the significant matters discussed in the Findings and Recommendations section of the report?	_____	_____
10. Do the findings/recommendations elaborate on significant matters discussed in the Summary section of the report?	_____	_____

# INDEPENDENT REPORT REVIEW PROCESSING CONTROL SHEET

<u>INDEPENDENT REPORT REVIEW (IRR):</u>	<u>DATE</u>	<u>SIGNATURE</u>
Draft of product and audit working papers submitted for IRR:	_____	_____ Audit Manager/Designee
Independent Reviewer (INR) acknowledges receipt of the above, and, if grade GS-12 or lower, the audit manager or designee has completed justification documentation:	_____	_____ Independent Reviewer
<b>PHASE I -- GENERAL FAMILIARIZATION:</b>		
The INR has completed a general familiarization review and concurs the product is ready for IRR:	_____	_____ Independent Reviewer
<b>PHASE II -- DETAILED REVIEW:</b>		
The INR has completed a detailed review. All INR reviewer notes are documented and have been submitted to the audit team for disposition:	_____	_____ Independent Reviewer
<b>PHASE III -- DISPOSITION OF IRR POINTS:</b>		
The audit team has made the necessary revisions to the working papers or the product:	_____	_____ Audit Manager/Designee
The INR has reviewed and concurs with the action taken by the audit team. Open points have been submitted to the RIGAS/AIGAS or designee for final review and disposition:	_____	_____ Independent Reviewer





# INDEPENDENT REPORT REVIEW CERTIFICATION

	Date Submitted to Reviewer:	
Audit Manager:		
Senior Auditor:		
Auditor-In-Charge:		
Independent Reviewer (INR) and Grade:		
	<b>MARK ANSWER YES OR NO*</b>	<b>INR INITIALS/ DATE REVIEWED</b>
1. The draft report is adequately cross-referenced on a line-by-line basis to the supporting working papers. Evidence of supervisory review is documented in the working papers. (If "No," report should be returned to audit team for appropriate action before proceeding further.)	<input type="checkbox"/> Yes <input type="checkbox"/> No	
2. Reported factual information in the draft report agrees with information recorded in the supporting working papers.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
3. Every total, percentage, statistic or similar figure in the draft report agrees with data in supporting working papers.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
4. Computer generated data and/or statistical projections have been independently verified by the regional office advanced techniques specialist or designee and documented accordingly in the working papers.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
5. The reported findings are adequately supported by the working papers and the conclusions/recommendations flow logically from that support.	<input type="checkbox"/> Yes <input type="checkbox"/> No	

**NOTE:** All exceptions to the above verification items and other recommendations are to be listed on a separate working paper.

INR's Signature: \_\_\_\_\_

Date Completed: \_\_\_\_\_

# POST AUDIT EVALUATION

Based on the work just completed, these items should be considered in planning future reviews.

**CONDUCT OF REVIEW:** What were the strengths and weaknesses during each phase of the review? What additional or modified steps should be considered in the future to improve the efficiency of the review?

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**TARGET DATES/BUDGET:** Were the original target dates and time budget reasonable? If not, why?

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**STAFFING:** Was the number of staff assigned to the review sufficient? Was the staff adequately trained to complete their assignments? What additional training is needed?

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**USE OF OARS:** Identify ways that the OARS could have been used more effectively during the review.

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# POST AUDIT EVALUATION

**COOPERATION OF PERSONNEL:** Was auditee cooperation adequate (e.g. availability of staff, access to records)?

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**AREAS TO BE EMPHASIZED/DE-EMPHASIZED:** Based on this review, what aspects of future reviews should be emphasized or de-emphasized?

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**ACTION ITEMS:** 1. OAS/regional policies and procedures changes.  
2. Additional areas for audit.  
3. Other

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**OTHER COMMENTS?**

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