

AGA's Corporate Partner
Advisory Group

Survey Series

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Inspector General



**KEARNEY &
COMPANY**



Meeting Accountability Challenges

Survey Contributors

AGA

Relmond Van Daniker, DBA, CPA
Chief Executive Officer

Steven E. Sossei, CPA

Kearney & Company

David M. Zavada, CPA, MPA
Survey Director

Jeffrey W. Green, CPA
Ronald Longo, CGFM, CPA
Kelly Gorrell, CGFM, CPA
Lyndsay McKeown

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About the Survey



AGA sponsors and prepares a wide range of informational reports each year that highlight emerging issues and common concerns among the financial accountability community and provide research information on important topics. As part of this initiative, AGA, in partnership with Kearney & Company, P.C. (Kearney), has conducted its second annual survey of the federal Inspector General (IG) community. The survey was conducted to meet two broad objectives: (1) to provide information on cross-cutting issues that affect federal IG and state auditor operations today, and (2) to identify issues that may emerge in future years that will affect IG and state auditor operations. Last year, the inaugural survey of the IG community was based on a series of interviews guided by our survey tool. This year, we conducted both an online survey of federal IG and state auditor operations as well as interviews with selected IGs.

The first survey took the pulse of the IG community on a wide range of issues by asking questions on high-level matters such as budget and operations, IG independence, working with agency management and Congress. We also asked IGs about topics such as the use of data analytics, and their views on the costs and benefits of annual financial

statement audits. These results were summarized in a report published in September 2013 and featured at AGA's Internal Control and Fraud Training program held in Washington. This second annual survey asked the IG community their views on many of the same topics in addition to a variety of new topics. To broaden the effectiveness of our survey, we expanded our coverage to ask questions of the state auditor community in areas of common concern.

Methodology

AGA, in conjunction with Kearney, developed an online survey instrument that was sent to federal IGs in June 2014. We also conducted interviews with representatives from a non-random sample of federal IG offices. Our interviews covered both large and small IG offices. The IGs we interviewed included those appointed by the President and confirmed by the Senate, as well as those not requiring Senate confirmation. A nearly identical survey was also sent to the state auditors in the same month. State auditors provide independent oversight at the state Government level in a manner similar to federal IGs. The survey questions were modified, where appropriate, to address their unique oversight roles

and responsibilities. Each survey asked more than 40 questions in broad areas such as resource allocation, budget and operations, human resources, data analytics, cyber security, and IT auditing. The survey also inquired about the challenges faced by the IG community.

Anonymity

To encourage respondents to respond freely, we do not attribute any thoughts and/or quotations to any individual official. All results shall remain anonymous.

Acknowledgements

AGA would like to thank the federal IGs and state auditors and their staff who participated in this survey, both those that took the time to complete our survey and those who participated in in-person interviews. We look forward to continuing this annual survey project in future years to provide an annual review of the issues and challenges facing the IG and state audit community.

Executive Summary

The IG and state audit community play an important role in providing oversight of federal and state agency programs and operations, as well as preventing and detecting fraud, waste, and abuse. AGA, with Kearney's support, continued to conduct an annual survey of the IG community in an effort to provide information and insights across the community. While the primary focus of the survey is on the federal IG community, an effort was made to identify areas of common concern across the oversight landscape. In order to do that, this year's survey included state auditors.

This year's survey results were consistent with the results reported last year, and new issues were identified. Budget-, technology- and human resources-based themes once again ran throughout this year's survey. Uncertainty regarding the budget is still at the top of the list of issues the federal IG community faces. However, this year's survey delved deeper into identifying some underlying limitations that inhibit the effectiveness of the community, such as the proliferation of across-the-board mandated requirements that are not driven by agency-specific risks. These mandates in the areas of conference spending, purchase and travel cards, and improper payments restrict IG flexibility to direct resources to the highest-risk areas, making them candidates for streamlining and burden reduction initiatives.

Similarly, we reported last year that technology and the ability to perform data analytics on a broader scale hold great promise for improving the efficiency of the way oversight is conducted. This year, in digging deeper,

many IGs identified operational concerns in implementing data analytics on a larger scale. These concerns were focused on the format and integrity of data from varying systems and access to certain data across agencies.

Human resource issues also continued to rank highly in this year's survey. IG offices struggle with the pace and effectiveness of the federal hiring process. Some offices expressed frustration over the lack of control over the candidate evaluation process in particular. Many offices also expressed concern over the inability to attract the specialized skills needed to conduct data analytics and information technology (IT) oversight. They pointed to the lack of flexibility in offering competitive compensation as one of the contributing causes.

The IG community continued to see significant value in the financial statement audit process. As in the past, the most important benefit cited was the improvement and sustainment of effective internal control, but some respondents indicated that the form and content of federal financial statements could be improved.

Related to all of the issues above, but more internal in nature, was the issue of IG community advocacy and collaboration. While survey respondents identified areas where community leadership and governance worked very well, one of the challenges identified was for a strong, clear, and proactive voice to advocate on behalf of the community and identify areas where further collaboration within the community yields cost savings and benefits. In this same area, the

survey once again found that while the oversight responsibilities of all IG offices are the same, their needs are different. Larger offices have their own channels of communication and can navigate through challenges. However, resource levels of smaller IG offices make it very difficult for them to meet their responsibilities without taking bold new collaborative approaches like sharing services.

At the state level, state audit offices identified a greater need to address IT and data security issues. State auditors expressed fewer concerns about resource levels and the timeliness and effectiveness of the hiring process in meeting their needs. The following sections discuss the results, by focus area, in greater detail, beginning with the new issues identified in this year's survey.

IG Survey Results: At-A-Glance

- Some mandatory audits inhibit risk-based planning
- Data access, format, and integrity impair data analytics
- Proactive community advocacy and collaboration important
- Budget uncertainty an ongoing concern
- Federal staffing levels flat or declining
- Only about half of all audit offices use social media to communicate
- Widespread dissatisfaction with the Federal hiring process
- IT security most needed skill set
- Few state audit offices comfortable with IT security capabilities
- Financial audit sustains effective internal control and accurate data

Newly-Identified Areas of Concern



Each federal Office of the Inspector General is charged with providing oversight to detect and prevent fraud, waste, abuse, and violations of the law while promoting economy, efficiency, and effectiveness in the operations of the federal Government. The IGs have a unique dual reporting relationship, in that they report to both the head of their agency and to Congress. At the state level of Government, most states have an office similar to the IG, generally known as the state auditor. State auditors have oversight responsibilities similar to the federal IGs and are either independently elected or appointed by the state legislature.

It was evident from our survey that although the IG operations vary in size and complexity, many issues are common. However, there are some issues that primarily affect smaller and medium-sized IG offices. Many of the issues and concerns identified this year are similar to those identified last year, but a number of new concerns were raised. The first section of our report discusses those issues, while the remainder of the report expands and provides a current perspective on previously identified issues.

Mandatory Requirements Inhibit Risk-Based Planning

Nearly all IGs had concerns about the increase in various mandatory audits and reporting requirements that have been imposed upon their offices in a time of tight budgets and flat staffing levels. While each IG office operates independently in fulfilling their oversight responsibilities, they are often impacted in a similar way through various laws enacted by Congress or requirements imposed by the Executive branch through the Office of Management and Budget (OMB). The IGs are concerned that as more of their resources are devoted to fulfilling these requirements, fewer resources are available to address the most pressing, high-risk areas of an

agency's operations that are of great importance to their organization's mission.

During our survey, IGs raised questions about the need for some of the newer burdens imposed upon the IG community over the last several years. For example, most recently, the IGs have been requested to examine and report on their agency's use of funds to attend and hold conferences, travel cards, and purchase cards. These requirements were instituted in reaction to instances of extravagant spending and abuse by staff in certain federal Government agencies. In reaction, a uniform requirement for audit work was issued across the federal Government. While these are important risk areas in some

Streamlining and Burden Reduction

IG offices identified across-the-board requirements in the following areas as candidates for streamlining and burden reduction. These focus areas are not always the areas of highest risk at an agency level.

- **Conference spending reviews**
- **Purchase and travel card assessments and audits**
- **Improper payment audits**

agencies, many IGs stated that the risk in their agencies was minimal and that the effort required to address these issues in the manner prescribed by law was disproportionate to the actual risk. However, they were compelled to expend valuable resources to meet the new responsibilities placed on their offices. In addition to conferences, travel cards, and purchase cards, a number of the IGs felt that the one-size-fits-all approach to improper payments was disproportionate to the actual risk at certain agencies.

The IGs indicated that across-the-board directives, such as those described above, restrict individual IG efforts to address the most important and highest risk areas within their agencies. They felt that such new requirements should allow the IGs flexibility in addressing issues. In their view, enabling individual IGs the latitude to more strategically assess and address program and financial risks within their agencies will allow them to better match resources to risk.

On across-the-board requirements:

"...redirecting resources [from higher risk areas] to meet these requirements is something we struggle with..."

The survey results appear to suggest that there is a need for a comprehensive re-examination of the myriad of audit and reporting requirements that have been placed upon the IGs with consideration given to providing flexibility to the frequency of these audits and reporting requirements. Because of the different structure and environment within which state auditors operate, the issue of mandatory audits was not a major concern.

Data Format and Integrity Impair Data Analytics

A new major concern in the IG community heard in this year's survey related to the ability to access data, as well as the format and integrity of the data in agency systems. IGs felt that technological advances that enable data analytics on a broad scale are one of the keys to more efficient and effective oversight. This type of data analytics enables IG offices to identify anomalies as well as predict risk areas where fraud may occur. However, in searching for best practices, this year's survey pressed deeper in inquiring about how and where data analytics was being used effectively. While success stories were identified, it was clear that concerns about the format and integrity of data in agency systems is limiting data analytics on a broader scale.

IGs also cited more basic issues regarding data. Some IGs were stymied in their ability to compare data across a number of IT systems, due to both the incompatibility of data across systems and basic data inaccuracies. As a result, these IGs have been unable to extract much in the way of useful data in many cases. We note that the newly enacted Digital Accountability and Transparency Act of 2014 may help to address this issue.

Further, for the IG community to perform effectively, they must have unrestricted access to the data and records of the agency. Some IGs commented that limitations placed upon their ability to access information directly from agency systems hampered their work. Some IGs have established the ability to directly access agency IT databases and systems; however, it has taken significant time to establish the protocols.

The most serious concerns expressed by IGs were on the limitations placed upon their ability to access certain information. One IG office with a significant data analytic operation stated that restrictions in the ability to data match records across the federal Government has

"Restrictions in the ability to data match records across the Federal government need to be examined to allow for better oversight of Federal funds."

limited their ability to recommend improvements to operations. They believe that such restrictions need to be examined across the federal Government to allow for better oversight of federal programs.

The small to medium-sized IGs expressed a need for greater support in the field of data analytics through a shared service arrangement. Developing a data analytic capability requires a long-term commitment of resources, and the benefits of such operations also have a long-term horizon. Our survey found that some of the IGs have very small units or no units at all dedicated to this task. Smaller IGs, in particular, often lack the resources to develop such operations while fulfilling their other responsibilities. This matter is also discussed in the Data Analytics, Cyber Security, and IT Audit section of this report.

Proactive Community Advocacy and Collaboration Important

The federal Offices of the Inspectors General is a community of 72 members that serve an important role in federal Government accountability. Although they operate as independent organizations within the federal Government, they share common concerns and issues. Survey respondents felt that the ability to

raise issues and concerns that impact the IG community is vital to their long-term effectiveness.

Leading and governing such a large community of both large and small IG offices is challenging. Survey respondents identified a number of anecdotes where the IG community has been able to successfully employ collaborative and effective approaches to oversight and communication, such as with oversight of American Recovery and Reinvestment Act spending, procurement fraud, single audit coordination, and grants reforms. However, the IG community continually faces budget and other challenges to executing their responsibilities. Many of the IGs that we interviewed would welcome a more proactive, coordinated approach to advocacy and communication of IG perspectives within the federal Government. They believe the Council of Inspectors General on Integrity and Efficiency (CIGIE) is uniquely suited to fill that role.

The CIGIE was statutorily established as an independent entity within the Executive branch by the The Inspector General Reform Act of 2008, P.L. 110-409 to:

- Address integrity, economy, and effectiveness issues that transcend individual Government agencies; and
- Increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the Offices of the Inspectors General as a community.

The issue of IG community leadership and governance was a recurring theme raised by IGs in our interviews. In regard to the first part of the CIGIE mission above, survey respondents indicated a need for a strong, clear, and proactive voice to develop positions and to advocate on behalf of the community, particularly by taking a more active role in bringing issues of concern in the IG community to the

attention of the Congress. They cited as examples the growing number of mandatory audits and reviews, access to agency data and systems, data sharing across multiple agencies, the federal hiring process, and shared services to lower costs.


For example, 47 IGs recently signed a letter to the Chairmen and Ranking Members of the House Committee on Oversight and Government Reform and the Senate Committee on Homeland Security and Governmental Affairs expressing concerns about limitations that were placed on the ability of the IGs at the Peace Corps, the Environmental Protection Agency (EPA), and the Department of Justice (DOJ) to access records. The letter stated that IGs were being prevented from performing necessary work because agency management was denying access to records, which creates an impediment to effective and timely oversight and reporting and in some cases construes other statutes as superseding the IG Act. In the letter, the IGs stated that this restricts their independence and thus weakens their effectiveness. This is the type of issue that some respondents feel warrants a community-wide approach to communication and advocacy.

Also, smaller IG offices felt that they had a greater need for community advocacy than the larger offices. The survey responses supported their view that larger

offices have well-established channels of communication with Congress and OMB, while smaller offices often lack the resources to do so.

Some IGs were also unclear as to CIGIE's role, responsibilities, and statutory authority. There are those in the IG community that believe that the statute creating CIGIE does not give CIGIE the authority to bring the IG community's issues of concern to the attention of the Congress.

In addition to the issue of community advocacy, survey respondents also raised concerns about the CIGIE structure. They expressed concern that the group itself was too large and that the needs of large and small IG offices were too different to effectively lead and govern using the current model and approach. They believed that a group of 72 is too large for meaningful discussion. Some also opined that the current structure has too many subcommittees and the voting structure disproportionately represents the smaller offices. Others, by contrast, felt that the leadership structure better represents the larger agencies and is unduly conservative and that the committee structure is cumbersome and slow to meet evolving needs. Given the divergent views of the community on the role and structure of the CIGIE, it appears that the issue of community leadership and governance merits further discussion.



Smaller IG offices felt that they had a greater need for community advocacy than the larger offices.



Budget and Operations

Securing adequate resources for their operations continues to be a challenge for the IG community and many IGs have been required to reduce work in some areas of risk they believe should be examined by their office. Among the areas addressed in our survey were recent trends in staffing levels, the impact of recent mandates placed on IGs, the use of social media as a communication vehicle, and the methods the IGs use to determine how to deploy scarce resources. These areas are covered in the sections that follow.

Federal Staffing Levels Are Flat or In Decline

IGs' operations are staff intensive and the largest portion of the budgets are devoted to salaries and the expenses associated with the staff's work on audits and investigations. Last year's survey found that IGs were meeting the budget reduction requirements caused by sequestration through techniques such as staff furloughs, restricted and delayed hiring, and reduction in staff travel. In this year's survey, we also focused on the issue of budgets. With the

matter of sequestration having been diminished for the next two fiscal years (FYs), we sought to focus on long-term budget matters. We asked the IGs questions about their staffing levels today versus several years ago, turnover in staffing, and impact on long-term operations.

We asked the IGs to compare their staffing levels for FY 2010 with the staffing levels for FY 2014. As shown by the table below, a little over half of the IGs reported that staff levels had remained relatively stable (within 5% of FY 2010 levels), and only 16% of the federal IGs reported that they had experienced an increase in staffing. Most significant was that 32% of the

federal IGs that responded to our survey had experienced a decrease in staff from FY 2010 to FY 2014, which is double those reporting increases. These staff decreases took place at a time when the number of mandatory audits imposed by Congress increased. In addition to the mandatory audits imposed by Congress, some IGs commented that requests by Congress to look into specific matters of constituent concern were also increasing. These requests divert resources and can be labor-intensive.

In contrast to the federal experience, a significant higher percentage (26%) of state auditors reported that they had experienced modest

Has the number of staff in your office:

Declined	State	21%
	Federal	32%
Remained Stable	State	53%
	Federal	52%
Increased	State	26%
	Federal	16%

"We are operating at historically low staffing levels."

growth in staffing. In terms of overall staffing, the state auditors reported similar results, with a little over half reporting that staffing was within 5% of the FY 2010 levels.

Some federal IGs reported that their staff levels today were at historically low levels when compared to the levels of more than a decade ago. One IG cited that staffing levels were at the lowest point since creation of the office. IGs faced with flat or lower staffing levels stated that they have been unable to hire entry-level staff to train alongside the more-experienced staff that will be retiring soon. IGs shared that the replacement of experienced staff with less-experienced staff affects productivity and effectiveness. This also presents problems in training staff because on-the-job training is an essential component. Other IGs commented that low staffing levels have forced them to delay work on new oversight initiatives.

For example, tight budget resources have affected IGs' efforts at developing data analytics capabilities. Using data analytics to assist in identifying audit and investigative targets has been shown to increase the effectiveness of oversight operations. Developing such operations is a long-term investment and requires a sustained focus. When asked if they had been hampered by a lack of resources in their efforts to develop new or additional data analytics capabilities, 45% of the IGs and 40% of the state auditors answered yes.

Many Offices Do Not Use Social Media to Communicate

Many respondents in last year's survey indicated timely reporting of audit results was a continuing challenge in the IG community. Reporting long after completing the work can reduce the impact of the work and relevance of the reports. Some IGs reported that they had begun to address this problem by using an early warning type of reporting to communicate results quicker than the traditional process. Other IGs indicated that they had begun using social media to communicate the results of their work.

Based on last year's survey, we chose to follow up on the use of social media across all of the IGs by asking them the extent to which they used social media. As shown in the following table, 41% of the IGs who participated in our survey used social media, while 59% did not. Facebook and Twitter were the two primary social media outlets respondents reported using. Other respondents also indicated that they used RSS feeds to keep followers updated.

Many IGs Utilize a Structured Risk Assessment Approach to Audit Planning

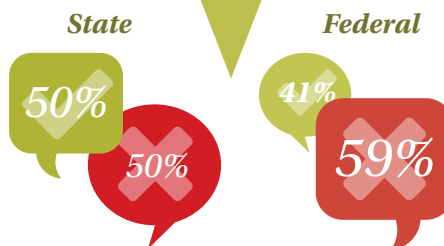
With limited resources and increased demands placed on their offices, we asked IGs how they deployed their resources. All IGs develop an annual plan for their work, although the methods used to develop the plan vary. The IGs seek input from their internal management staff on areas of risk that should be addressed when developing their plan to deploy resources and address areas of concern that are developed based upon input from Congress and other stakeholders in the agency.

We noted that many of the IGs prepare an Enterprise-Wide Risk Assessment to assist them in planning their audit work. Our survey disclosed that 50% of the IGs prepare an Enterprise-Wide Risk Assessment to help them plan their audit work. Of

the entities that prepare an Enterprise-Wide Risk Assessment, the tactics for updating it fall into two categories. Nearly half of the IGs will update the entire risk assessment annually, and one-third will update portions of the risk assessment as needed. However, all of the IGs cautioned that audit planning is a dynamic process as new priorities are established throughout the year based upon current events and changes to agency operations. Some IGs stressed that the dynamic environment in which they operate requires flexibility in their operations. They also expressed a restricted ability to do risk-based planning because of mandated audits and congressional requests.

Only a third of the state auditors reported that they had prepared an Enterprise-Wide Risk Assessment to assist them in their audit planning. This was a significantly lower percentage than the federal IGs. The reasons for the significant difference likely vary, as state auditors have somewhat varying responsibilities in their missions. Some state auditors perform the financial audit and single audit for their state, whereas others conduct only performance audits of Government operations.

Does your office use social media to communicate the results of your work to your customers?



Human Resources

The IGs need a wide range of skill sets to meet the current demands placed upon their organizations. In addition to the traditional skills of auditing and investigating, staff with skills in IT — cybersecurity, data analytics, and IT auditing are needed. The need for specialized skills has grown over time and continues to increase. In this part of our survey, our questions were focused on one of the most critical parts of the IG operations: human resources. Our questions were focused on the effectiveness of the hiring process, specifically timeliness and the ability to hire the right skill sets.

Widespread Dissatisfaction with the Federal Hiring Process

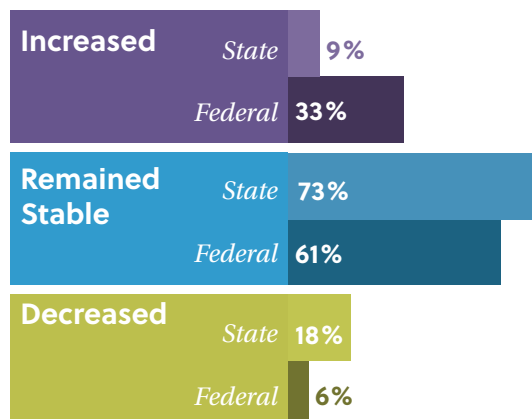
With staffing levels flat or declining, IGs need the ability to replace staff due to turnover in a timely manner. Timely replacement of staff will assist IGs in completing their work and provide for better training and the transfer of expertise from more-experienced staff to the new staff. We asked the IGs to estimate what the level of turnover is in their staff in FY 2013. One-third of the IGs estimated that they experience a turnover of greater than 10%, with 39% experiencing a turnover of between 5% and 10%. Turnover has both positive and

“The federal hiring process is broken...”

negative influences on an organization. Positive features include that it allows IGs to reconfigure their staff's skill sets by hiring new skills. A negative feature is that IGs lose expertise when experienced staff with institutional knowledge leave. Our survey disclosed that the rate of turnover has increased for one-third of the federal IGs; at the state level, the turnover level has increased for only 9% of the state audit organizations responding to our survey, as shown in the at left.

With this amount of turnover, hiring, where and when permitted, is a critical process for the IGs. A large portion of the IGs expressed concerns in the length of time the current hiring process takes. Our survey asked the IGs and the state auditors

Has the level of staff turnover increased or decreased versus the level of staff turnover traditionally experienced by your office?



45%

of survey respondents felt that the federal hiring process was too slow and did not bring the most qualified candidates to hiring officials.

a number of questions regarding the hiring process.

As shown from our results, 45% of the federal IGs believe that improvements are needed in the timeliness of the hiring process and only 6% felt the process was satisfactory in terms of its timeliness. However, at the state level, only 18% believed that improvements were needed, and 73% felt the process was adequate in terms of timeliness.

The high level of dissatisfaction with the timeliness of the hiring process indicates that efforts are needed to improve the federal hiring process. Many of the IGs were particularly critical of the Office of Personnel Management's (OPM) online application system.

Our follow-up with IGs on this issue provided some additional observations. IGs indicated that they lost highly qualified candidates to

other employers due to delays. They indicated that it sometimes takes months to bring a staff member on board, and this causes problems with training staff and completing their work. Our survey did not have any questions related to a high level of frustration with the rework that is often necessary in the current hiring process, but this topic was evident based on respondents' comments. IGs indicated that inaccurate information on an applicant's initial application caused them to have to back track and lose time and then identify other qualified candidates. IGs stated that this rework further delays the hiring of staff and wastes resources.

Other IGs stated that they are frustrated by the inability to make direct hires. Some IGs have made efforts to recruit qualified entry-level staff through college outreach programs,

etc., but they are unable to hire directly. Instead, they can only refer candidates to the vast federal hiring system, which results in large pools of candidates being identified (sometimes over 1,000 individuals). With such an extensive pool of resumes, it is difficult to screen them effectively, and the result is that good candidates are often screened out and lost.

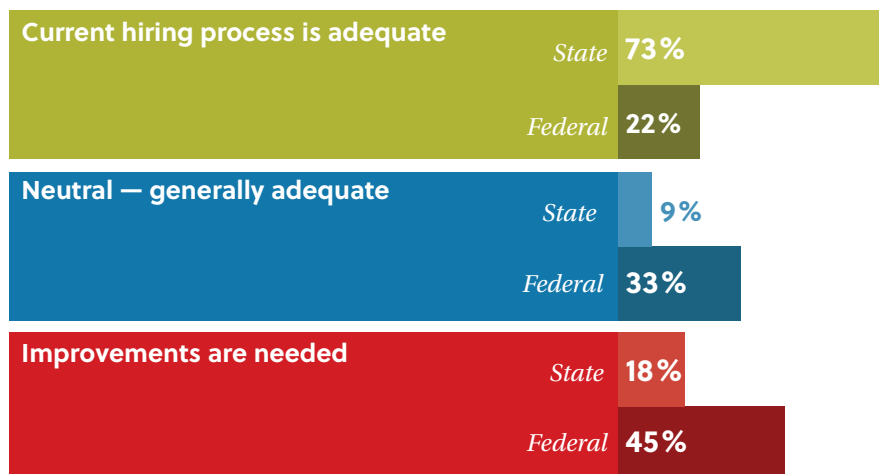
It is Difficult to Acquire Specialized Skills

The mission of the IGs has not changed, but the way the mission is performed has evolved. Data analytics skills are needed to sift through the volumes of data stored on IT systems, cybersecurity skills are needed to review and test IT system security and Iprogram-specific knowledge is needed to properly conduct audits of programs. We asked IGs to tell us what skill sets were most difficult for them to secure in the current hiring environment. The IGs were asked to rank the difficulty they have experienced in hiring:

- IT Security
- Data Analytics
- IT Audit
- Audit
- Investigation.

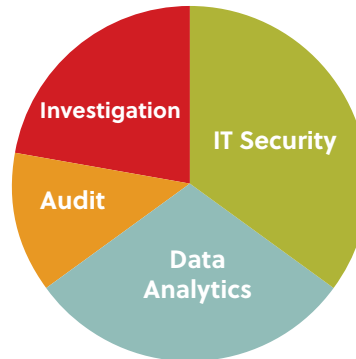
There was an overwhelming consensus among the IGs. The IGs ranked IT security and data analytics as the two most difficult skill sets to hire for in their operations. IT security

How would you characterize the effectiveness of the process used by your office to hire qualified staff in a timely manner?

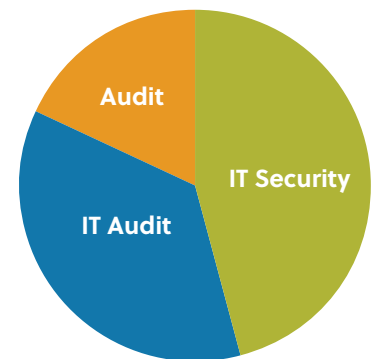


What skill set do you have the most difficulty in hiring?

Federal



State



skills were ranked as the most difficult. Data analytics skills was a close second as ranked by the federal respondents.

Our survey of state auditors and state audit operations disclosed that they have experienced the same problems in the hiring of IT security personnel. Once again, IT security was the most difficult skill set to hire. IT audit skills were ranked second by the IGs and state auditors.

For a Majority of IGs, Training Requirements are Still Being Met

Training is a constant need in the IG environment. Providing adequate, cutting-edge training is a significant component in any professional organization's operation. There is a constant need to remain current and up-to-date on audit and investigative techniques and the environment they work within. The effectiveness (or ineffectiveness) of a professional organization's training program has long-term effects on the organization's success. In addition, audit staff are required to obtain a minimum level of training each year to comply with Government Auditing

Standards. The impact of tight budgets is often felt on the training of operations such as the IGs', which are staff-intensive operations.

Last year's survey found that some IGs were delaying training or reducing the number of training hours provided to staff. All of the IGs indicated that they had changed the methods in which training was delivered. They opted to reduce the amount of off-site training provided to staff, instead preferring less-costly options, such as online training. This year, the survey asked IGs if the current tight budget environment has negatively impacted their

ability to meet the requirements set by Government Auditing Standards for their audit staff. We found that 72% of the respondents stated it has not reduced their ability to meet the requirements. However, a significant portion of the IGs responded that budget constraints had reduced their ability to comply with Government Auditing Standards. Most of this group indicated that training had been reduced to minimal levels.

Federal IGs and State Auditors both ranked IT Security as the most difficult skill set to hire for in their operations.



Data Analytics, Cybersecurity and IT Auditing

The specialized areas of data analytics, cybersecurity, and IT audits are of increasing concern for the IGs. Enormous amounts of information are collected and stored on IT systems, and there is a need to analyze this data when conducting and planning audits and identifying investigative targets. Much of this information is sensitive and must be secured, and IT systems must be protected from intrusion by unauthorized personnel. Our survey asked questions on these topics, and a number of issues were identified.

Data Analytics is Becoming Ingrained in IG Operations

Our first IG survey asked a series of questions regarding data analytics, and we have continued our inquiry into this topic in this year's survey. Last year, we found that there was broad agreement among the IGs that of all the tools and techniques available, improved data analytics capability, and wider use of these techniques have the greatest potential to significantly improve the efficiency and effectiveness of IG operations. The challenge for the IGs was to

develop the capacity to deploy these techniques on a wider scale and to improve the reliability of the results. This year, our survey focused on the organization of data analytics operations in the IG offices, the resources devoted to such endeavors, and the extent to which such tools are being implemented and used to support and drive the audits and investigations being conducted.

The need for data analytics has been recognized for a number of years, and the effectiveness of the tools and techniques has been demonstrated. Data analytics builds upon the large quantities of data stored on IT systems and the need to analyze large amounts of data to provide meaningful information on trends, anomalies, and compare information between independent sources. This year's survey asked IGs if they used data analytics to identify potential audit and investigative targets. As shown in the following table, 71% of the federal respondents and 67% of the state respondents indicated that they used data analytics in this manner.

We asked those IGs that answered yes to estimate the extent to which

their audits and investigations are initiated based on the data analytics, and we received a wide range of answers. Over 40% of the IGs that responded to the survey indicated that at least 1/4 of their audit and/or investigative work was initiated based upon data analytics. Others indicated that they had just initiated a data



analytics program and the balance indicated that less than 10% of their audits and investigations were started based on data analytics. The state auditors reported similar information regarding the number of audits initiated based on the results of data analytics.

Where Data Analytics are Used, Resources Have Increased

We also wanted to understand how the data analytics operations were organized and resourced. Our survey found that over half of the IGs (52%) using data analytics formed a separate unit in their office to develop new techniques and tools. The remaining IGs had not formed a separate unit devoted to this task.

For those IGs that had formed a separate unit, the amount of staff devoted to the unit varied. Most of the data analytics units (77%) had less than ten staff, with only 23% having over ten staff members. We also asked the IGs how they staffed the units, with either OIG staff, consultants, or both. Two-thirds of the IGs staffed the unit with only IG staff, and the remainder used a combination of IG and consultants.

State auditors reported similar results. Our survey found that 73% of the state auditors resourced their data analytics units exclusively with their

own staff, while 20% used a combination of consultant and state auditor staff. Given the difficulty in hiring staff with data analytics skills, using consultants appears to be necessary. The increasing value placed on data analytics to improve the effectiveness of IG and state auditor operations was evident by the change in resources devoted to this task. As highlighted in the section on Budgets and Operations, most IGs have experienced no growth or a decline in staff resources over the last several years, and the states have experienced modest growth. However, as the table below indicates, the percentage of resources devoted to data analytics has increased dramatically when comparing FY 2014 to FY 2010.

Similar results were also reported by state auditors regarding increases in resources. As shown in the table, 73% of the federal IGs with separate data analytics units increased their staffing, while 20% doubled their resources devoted to data analytics.

It appears that the IGs and state auditors that have invested in data analytics have increased their investment in this area of their operations and that additional resources would be invested in this area. According to our survey, budget constraints have held back the development of improved data analytics in 40% of the federal IGs and state auditors offices.

Impediments to Data Analytics

- Limited Resources
- Incompatible data
- Data integrity

Data Format, Integrity, and Access Issues Have Limited the Use of Data Analytics

IGs that did not use data analytics were asked why they had not done so and provided three general answers. They cited limits on resources, including both staff resources and non-staff resources for equipment, software, and consultants. Another reason cited was the condition of the agency's IT systems, because many are antiquated and often incompatible.

Also, the information on the agency's systems is often inaccurate. This makes data analytics difficult, as information cleanup will be significant.

Other IGs spoke about the nature of the data collected and the data environment in some agencies as holding them back from increased efforts in data analytics. By the nature of the program, some agencies collect very rich, interrelated data that is useful in analyzing programs and operations. Other organizations collect very flat data that cannot be used for in-depth analysis. Even IGs that have separate units and devote resources to data analytics discussed the limitations in data analytics, such as the need to reduce false positives. While data issues were more the norm for respondents, some participants did identify best practices and success stories in using data analytics on a

How much did you increase your available resources in the area of data analytics?

Moderate Increase	State	67%
	Federal	73%
Significant Increase	State	14%
	Federal	7%
Over 100% Increase	State	19%
	Federal	20%

broader scale to improve program integrity. These examples were the result of sustained efforts to identify reliable systems and scrub data and results to facilitate its use.

A Significant Portion of IGs and State Auditors Feel Cybersecurity Capabilities Need Improvement

All Government agencies store a wide range of information on IT systems and conduct their operations using those systems. All of the information collected by Government agencies is costly to collect and store. Some of the information is sensitive and protected by law from unauthorized disclosure. All of the IT systems must be protected from unauthorized access and corruption. Keeping information and IT systems secure from unauthorized access is a major concern for agency managers, IGs, and state auditors.

Given the importance of this concern, we asked the federal IGs and state auditors to tell us how comfortable they were with their capability to adequately address data security matters for their agency or organization. The results of our survey are shown in the above table.

As shown by the results, about 70% of the federal IGs stated they were comfortable or very comfortable with their cybersecurity

How do you rate your level of comfort with the capability your office has to adequately oversee data security matters for your agency/organization?

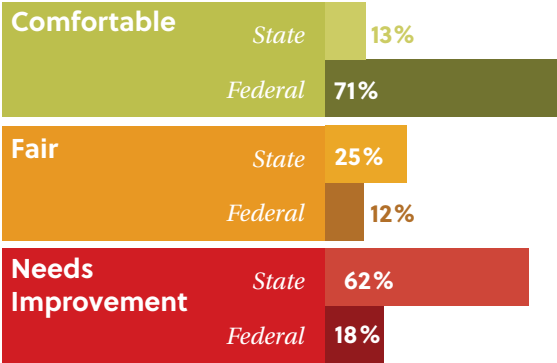
capabilities, while 30% rated their capabilities as only fair or needing improvement. This was markedly different than the responses received from the state auditor community. state auditors rated their level of comfort as much lower across the board. As shown, only 13% indicated that they were very comfortable with their capability to address data security matters, and 87% rated their level of comfort as only fair or needing improvement. Some IGs felt that they were always ‘playing catch-up’ when it came to data security.

We also asked the federal IGs and state auditors if they used consultants to assist them in addressing data security matters. Our survey found that federal IGs were more likely to use consultants to assist them in addressing data security matters. With state auditors, only 22% reported that they used consultants to assist them. The low rate at which

consultants are used by the state auditors is surprising, considering the low level of comfort state auditors expressed in their capability to address data security matters in their state. Cybersecurity, both data and IT system access, is a major risk for Government agencies, and a significant portion of federal IGs (18%) and state auditors (62%) have rated their level of comfort at needs improvement.

Many IGs and State Auditors Rely on In-House Staff for IT Audits

In addition to cybersecurity concerns, an IT audit capacity is necessary to address IT system processing controls when conducting routine audits. Auditors must be concerned with both general and application controls. We asked the IGs how they addressed IT audit concerns in their agency, whether they used just in-house staff, consultants, or both. Many federal IGs (47%) reported that they used in-house staff to handle their IT audit needs, and 47% reported that they used a combination of in-house staff and consultant staff. Only 6% reported they used only consultants to address IT audit needs. State auditors filled their IT audit needs in a similar manner with 55% reporting they used only in-house staff and 33% reporting they used a combination of in-house and consultant staff.



"Successful approaches to using data analytics...are the result of sustained efforts to identify reliable systems and scrub data."



The Financial Audit

In all but a few cases, the annual financial statement audit at federal agencies is conducted by an independent Certified Public Accounting (CPA) firm under the close oversight of the federal IG for the agency. At the state Government level, the audits are conducted by either the state auditor or an independent CPA firm. The first annual survey asked a series of questions regarding the costs and benefits of financial statement audits in federal agencies. We asked the IGs to tell us what benefits they saw from an annual financial statement audit, how close their oversight was of CPAs performing the audit, and if they initiated any follow-on performance audits based on the financial statement audit results.

In this year's survey, we asked similar questions of the federal IGs and some related questions of the state auditors regarding the financial statement audit.

Financial Audits Are Seen as an Effective Oversight Approach to Strengthen and Sustain Internal Control

The annual financial statement audit touches almost every part of the agency or department and many, if not all, of the basic financial information systems used by the agency or department. Issues related to internal controls over agency operations are documented and validated, and deficiencies are reported to agency management as a formal internal control finding. All of this work provides valuable insight into an agency's or department's operations and their ability to report accurate data.

The IGs that participated in last year's survey voiced unanimous support regarding the continuing need for and the value of the annual financial statement audit. The survey indicated that 85% of the IGs specifically referenced internal control improvements resulting from financial statement audits in their answers. This group of respondents said the financial statement audit is a key component of their oversight of

internal controls within their agencies. They felt that the annual audit keeps internal control on the agenda in the agency. The same group of respondents also stated that, in their opinion, internal controls would deteriorate markedly if it was not for the financial statement audit.

IGs provide similar statements of support for the annual financial statement audit in this year's survey. Improved internal controls were the most referenced benefit resulting

"The financial audit has been beneficial in many ways...it improved the accuracy and reliability of data and is a valuable source of information for program audits."



from the financial statement audit. Respondents felt that internal controls would regress if the annual financial statement audit was not conducted. In cases where an agency was being audited for the first time, respondents felt that these same benefits are accruing and will continue as audits are conducted annually. However, some respondents did raise the form and content of financial statements as something that could improved to make them more useful and relevant.

On a related topic, the survey asked the IGs if they utilize the results of management's assessment of internal control over financial reporting when performing the financial statement audit. We found that over 60% of the IGs surveyed utilize the results when performing the financial statement audit. However, the degree to which results are leveraged depended on the rigor of management's assessment.

The Financial Statement Audit Serves as a Planning Tool

In this year's survey, we asked the IGs to characterize the extent to which they used the financial statement audit results to initiate additional performance audits of a program or an agency's operation. Specifically, we asked the IGs, "How would you characterize the impact of the financial statement audit on your audit planning efforts in your agency?"

We found that 94% of the federal IGs who responded to our survey regularly evaluated the results of the financial statement audit as part of

"The financial audit helps to sustain good internal control."

their audit planning process.

A similar question was asked of the state auditors, and we found that a significantly higher percentage of state auditors never initiate an audit based on the financial statement audit. The differences in the results could be due to a number of factors. For example, some state auditors may be less involved in the direct supervision of the independent CPA performing the work and therefore have less involvement in the specific issues identified and their relationship to other activities.



Conclusion

IG offices continue to be concerned about resource levels and overall budget uncertainty. These issues have the potential to adversely influence IG effectiveness in fulfilling their oversight responsibilities. The resource issue is particularly acute in some offices that are at historically low resource levels. This is against a backdrop of growing responsibilities and recent internal control failures.

In this year's survey, we continued to see the overarching effect that technology has on IG oversight activities. Data analytics is becoming an important tool on which IGs rely to identify areas to focus audit and investigative resources. However, this year's results identified challenges in implementing and using data analytics effectively.

Changes in technology continue to make IT and data security a challenging area at both the federal and state levels. Specialized skill sets in areas such as IT security were identified as the greatest needs among both federal and state respondents. This need is exacerbated by what many respondents feel is a slow and ineffective federal hiring process.

As in the past, many federal IGs

continue to utilize the results of the financial audit as an important planning tool and continue to comment on the improvements made in internal control and data integrity as a result of the financial audit.

In comparing and contrasting results between federal IGs and state audit offices, the survey found that results tracked differently in a number of areas. While federal IG and state audit budgets have generally stabilized at the majority of offices, many federal IG staffing levels were declining, with an almost equal percentage of state

audit offices' budgets increasing. In the area of human resources, state auditors were satisfied that the hiring process was meeting their needs. At the federal level, this was identified as a significant concern. Both federal IG and state auditor offices are increasingly utilizing data analytics as a tool in conducting their oversight activities.

At the federal level, other issues related to the core areas we focused on came to our attention. One of these is streamlining some of the mandatory audits that have recently been required to provide IGs with greater flexibility to focus resources on the areas where they see the highest risks in their individual agencies. Second is the suggestion that the overall structure of IG community leadership and governance be revisited to more strongly advocate for the community as a whole to promote further collaboration and better meet the unique needs of large and small offices.

AGA, with Kearney's support, looks forward to continuing this annual survey to facilitate an ongoing dialogue on issues, trends, and best practices within the audit and oversight community.

Assessing This Year's Survey Results and Looking Ahead

This year's survey took a more in-depth look at the issues and concerns of the IG community. The online survey significantly expanded participation at the Federal and state levels. Looking ahead, meeting accountability challenges will require new and sustained approaches to oversight. AGA, with Kearney's support, looks forward to continuing this annual survey to facilitate an ongoing dialogue on the issues facing the audit and oversight community.

Appendix:

Survey Results by Area

Focus Area	Survey Results
New Issues	<ul style="list-style-type: none">• Some mandated requirements inhibit risk-based planning.• Data access, format, and integrity impair data analytics.• Proactive community advocacy and collaboration important.
Budget and Operations	<ul style="list-style-type: none">• Budget uncertainty an ongoing concern.• Federal IG staffing levels are flat or declining.• Half of IG offices use structured enterprise-wide planning processes.• Only about half of all audit offices use social media to communicate.
Human Resources	<ul style="list-style-type: none">• Wide-spread dissatisfaction with the federal hiring process.• The federal hiring process is too slow and needs improvement.• IT security is the most difficult skill set to hire among all audit offices.
Data Analytics, Cybersecurity, and IT Auditing	<ul style="list-style-type: none">• Data analytics is becoming ingrained in IG operations.• Offices are devoting a greater share of resources to data analytics.• Data analytics requires a sustained effort to identify reliable systems and scrub data.• Few state audit offices are comfortable with IT security capabilities.
The Financial Audit	<ul style="list-style-type: none">• The financial audit strengthens and sustains agency internal controls.• The financial audit improves the accuracy and reliability of agency data.• Federal financial statements could be more useful and relevant.

If you would like copies of this survey or an opportunity to hear more about its content and the challenges facing the federal IG community, please contact AGA.

KEARNEY & COMPANY

1701 Duke Street
Suite 500
Alexandria, VA 22314

703.931.5600

www. Kearneyco.com



2208 Mount Vernon Avenue
Alexandria, VA 22301

800.AGA.7211
703.684.6931

www.agacgfm.org
agamembers@agacgfm.org