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# *Office of Inspector General*

# *Audit Report*

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## **MWAA'S OFFICE OF AUDIT DOES NOT HAVE AN ADEQUATE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

*Metropolitan Washington Airports Authority*

*Report Number: ZA-2015-035*

*Date Issued: March 20, 2015*





# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **INFORMATION:** MWAA's Office of Audit  
Does Not Have an Adequate Quality Assurance  
and Improvement Program  
Metropolitan Washington Airports Authority  
Report Number ZA-2015-035

Date: March 20, 2015

From: Mary Kay Langan-Feirson   
Assistant Inspector General  
for Acquisition and Procurement Audits

Reply to  
Attn. of: JA-60

To: Frank M. Conner III  
MWAA Board of Directors, Chairman

John E. Potter  
MWAA President and CEO

The Metropolitan Washington Airports Authority (MWAA) manages Ronald Reagan Washington National Airport and Washington Dulles International Airport through a lease with the U.S. Department of Transportation (DOT). MWAA is also responsible for the multibillion-dollar Dulles Corridor Metrorail Project. The role of MWAA's Office of Audit is to "provide reasonable assurance that the Authority has an effective system of internal controls, encompassing accounting, financial, administrative operational, and computer controls."

Our prior audit reports<sup>1</sup> of MWAA identified weaknesses in its internal controls that were causing questionable procurement practices, mismanagement, a lack of overall accountability, and unallowable and unsupported expenses. Our reports also concluded that enhanced policies, strong internal controls, and robust oversight are critical to maintain and improve MWAA's operations. We initiated this audit after legislation indicated continued congressional interest in our audit coverage of MWAA.<sup>2</sup> The objective of this review was to determine whether

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<sup>1</sup> MWAA's *Weak Policies and Procedures Have Led To Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability* (OIG Report Number AV-2013-006), Nov. 1, 2012, and MWAA's *Financial Management Controls Are Not Sufficient To Ensure Eligibility of Expenses on FTA's Dulles Rail Project Grant* (OIG Report Number ZA-2014-021), Jan. 16, 2014. OIG reports are available on our Web site at <https://www.oig.dot.gov>.

<sup>2</sup> Consolidated Appropriations Act, 2014, Public Law 113-76.

MWAA's Office of Audit has established and carried out an audit quality assurance and improvement program in accordance with applicable standards.

Auditing standards generally require that an internal Office of Audit establish and implement a quality assurance and improvement program (QAIP) to assess the office's activities and contributions to the organization's control processes and risk management. As such, we reviewed Institute of Internal Auditors (IIA) standards, generally accepted Government auditing standards (GAGAS), American Institute of Certified Public Accountants (AICPA) Generally Accepted Auditing Standards (GAAS), and MWAA's Office of Audit policies and procedures. Additionally, we interviewed MWAA's Board members, Chief Executive Officer (CEO), Office of Audit staff, Internal Controls and Compliance division staff, and other MWAA staff. We also reviewed a selection of audit reports and corresponding work papers<sup>3</sup> prepared by MWAA staff and externally contracted auditors issued from January 2011 to March 2014 and reviewed the Office of Audit risk assessment and annual audit plans from 2012 through 2014. We conducted this review in accordance with generally accepted Government audit standards. Exhibit A further details our scope and methodology.

## **RESULTS IN BRIEF**

MWAA's Office of Audit has not established or carried out an audit QAIP in full conformance with standards. This is largely because until September 2014 the Vice President of Audit had not adopted standards to govern the office. Contrary to IIA guidance, the Office of Audit reports solely to the Board of Directors—uncompensated appointees—instead of dually reporting to both the Board and MWAA's CEO. As a result, there is limited oversight over the Office's day to day activities. During the period we reviewed,<sup>4</sup> the Office of Audit lacked (1) a quality review process to both internally and externally assess its audits and other products and (2) effective audit policies and procedures for continuing professional development, documenting and standardizing audit work papers, and ensuring auditor independence. Therefore, MWAA's audit reports and work papers did not consistently contain needed supporting documentation. For example, MWAA's work papers did not clearly support 19 of 30<sup>5</sup> facts and figures in 4 of 5 audit reports we reviewed. Finally, the Office of Audit has not adequately documented its process for developing and prioritizing its audit plans, including conducting required risk assessments of auditable activities. Based upon the findings at the time of our review, the Office of Audit's QAIP was not in

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<sup>3</sup> Based on our risk assessments, we selected 5 of 94 internal audit reports and 3 of 35 external audit reports for review from the list of reports that MWAA provided for the period from January 2011 to March 31, 2014.

<sup>4</sup> We reviewed audits issued between January 2011 and March 31, 2014.

<sup>5</sup> To assess the adequacy of support for information in the selected reports, we identified 30 facts and figures that we deemed to be critical to the conclusion of the audit report.

conformance with standards and does not provide reasonable assurance that audits will identify potential inefficiencies and improprieties and examine areas within MWAA in most need of improvement. During our audit, the Office did begin addressing some of these areas we identified, but we have not yet assessed these recent efforts.

We are making recommendations for MWAA to bring its QAIP in conformance with standards.

## **BACKGROUND**

MWAA operates under the terms of a lease agreement with DOT authorized by the Metropolitan Washington Airports Act of 1986 and an interstate compact between the Commonwealth of Virginia and the District of Columbia. MWAA is governed by a 17-member Board of Directors. The members are appointed without compensation, with the CEO providing executive direction and overall management of the Authority. MWAA's Office of Audit was created in 1997 to evaluate and improve the effectiveness of the Authority's governance, risk management, and internal controls. The Office reports directly to the Board of Directors and operates independent of the CEO and the rest of MWAA management. The Office of Audit is staffed with the Vice President of Audit, three audit managers, two senior auditors, three administrative assistants, and an adjunct auditor.<sup>6</sup> The Office of Audit also uses externally contracted auditors for some audits.

During the period we reviewed, MWAA issued 143 reports<sup>7</sup>; 71 percent were conducted with MWAA staff, and 29 percent were performed by externally contracted auditors. The Office of Audit primarily uses external auditors to review financial statements and provide advisory services for the Metrorail Project. In comparison, the Office of Audit uses its own staff to review concession revenues, business processes and functions, and construction activities. Other audits, such as contractor indirect cost rate reviews and contract compliance audits, are performed by both external auditors and MWAA staff.

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<sup>6</sup> The adjunct auditor is a temporary staffing firm employee; his work is reviewed by Office of Audit managers, and the reports he develops are issued by the office.

<sup>7</sup> This includes audits, reviews, and non audit services, such as audit follow up recommendation reports and risk assessment reports.

## **MWAA'S OFFICE OF AUDIT'S QUALITY ASSURANCE AND IMPROVEMENT PROGRAM DOES NOT MEET SEVERAL KEY STANDARDS**

MWAA's Office of Audit has not established or carried out an audit QAIP that conforms with applicable standards. The Vice President of Audit did not adopt standards to govern the Office and implement a QAIP until September 2014, 5 months after we began our audit, and there is minimal oversight over the Office's activities. The Office of Audit has begun taking steps to improve its program, such as obtaining Board approval of its Charter in September 2014. However, the Vice President of Audit has not implemented procedures consistent with industry best practices. Specifically, the Office of Audit (1) lacked a quality review process, (2) has insufficient audit policies and procedures, (3) does not adequately support its reports, and (4) inadequately documented its audit plans and risk assessments.

### **MWAA's Office of Audit Had Not Adopted Standards and Lacks Oversight**

MWAA's organizational placement of the Office of Audit has created an environment where there is limited compliance with audit standards and minimal oversight of the Office's activities. At the outset of our review, the Office of Audit did not cite standards used in its audit reports and had not adopted auditing standards. Instead the Office of Audit considered various auditing and accounting standards<sup>8</sup> when conducting internal audits but did not fully conform to any of the standards it considered. After we inquired about these practices, the Office of Audit submitted a Charter to the Board, which it approved on September 17, 2014, that states it will govern itself by adherence to IIA standards and Code of Ethics. However, the Charter does not conform to IIA standards and guidance. For example, the Vice President of Audit did not obtain senior management's approval of the Charter.<sup>9</sup> Table 1 shows MWAA has not implemented many IIA organizational reporting requirements.

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<sup>8</sup>According to the Vice President for Audit, standards considered included: Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, Government Auditing Standards, and Cost Accounting Standards promulgated by the Cost Accounting Standards Board.

<sup>9</sup> IIA Standard 1000, Purpose, Authority and Responsibility. The Chief Audit Executive must periodically review the internal audit charter and present it to senior management and the board for approval.

**Table 1. MWAA Implementation of IIA Organizational Reporting Requirements**

IIA Standards require the Vice President of Audit to:	MWAA's Charter Includes Involvement of:	
	Senior Management	Board of Directors
Discuss the Definition of Internal Auditing, the Code of Ethics, and the Standards <sup>10</sup>	No	Yes
Communicate the results of the external assessment <sup>11</sup>	No	Yes
Communicate the results of the internal assessment <sup>12</sup>	No	Yes
Communicate resource requirements <sup>13</sup>	No	Yes

Source: OIG analysis

In 2011, the reporting structure of the Office of Audit changed from dual reporting—to both the CEO and Board of Directors—to only reporting to the Board of Directors. After the change, the Office of Audit did not report to the CEO. This is contrary to IIA guidance,<sup>14</sup> which states that reporting functionally to the Board and administratively to the organization's CEO facilitates organizational independence as well as more efficient day to day operations, personnel management, and audit administration. The newly adopted Charter does not change the reporting structure adopted in 2011. Further, the Office of Audit's Charter and policies do not address obtaining senior management and Board input for many key areas such as:

- disclosure of impairments to independence,<sup>15</sup>
- discussion of the approach for external assessments,<sup>16</sup>
- approval of the Risk Assessment and Audit Plan,<sup>17</sup> and
- discussion of the Authority's Risk Tolerance.<sup>18</sup>

In November 2013, MWAA's Board of Directors requested that the Vice President of Human Resources obtain information on industry standards and best practices to more thoroughly evaluate the Office of Audit's performance. The Vice President of Human Resources provided the MWAA Board with the requested information in July 2014, and the Board has been considering it since then.

<sup>10</sup> IIA Standard 1010, Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter.

<sup>11</sup> IIA Standard 1320, Reporting on the Quality Assurance and Improvement Program.

<sup>12</sup> IIA Standard 1320, Reporting on the Quality Assurance and Improvement Program.

<sup>13</sup> IIA Standard 2020, Communication and Approval.

<sup>14</sup> IIA Practice Advisory (PA) 1110-1, *Organizational Independence*.

<sup>15</sup> IIA Standard 1130, Impairment to Independence of Objectivity.

<sup>16</sup> IIA PA 1312-1, External Assessments.

<sup>17</sup> IIA PA 2120-3, Internal Audit Coverage of Risks to Achieving Strategic Objectives.

<sup>18</sup> IIA Standard 2600, Communicating the Acceptance of Risks.

## The Office of Audit Lacked a Quality Review Process

We found that MWAA's Office of Audit had not conducted the required internal and external reviews of its QAIP as required by IIA standards during the period of our review.

### *MWAA's Office of Audit Had Not Conducted Internal Assessments*

The Office of Audit had not conducted internal assessments of its quality assurance process as required by IIA standards,<sup>19</sup> during the period of the audits we reviewed.<sup>20</sup> Without supervisory reviews and periodic internal assessments, the Office of Audit is at risk of issuing products with errors and undocumented findings and missing opportunities for improvement in its audit processes. Specifically, the Office of Audit had not:

- **Performed supervisory reviews of work papers.** None of the work papers for the five audit reports we assessed included documentation of supervisory review. Further, all five current Office of Audit staff members told us there is no supervisory review of all work papers. IIA guidance<sup>21</sup> states supervisory review includes the reviewer initialing and dating each work paper after it is reviewed. All audit standards considered by the Vice President of Audit prior to adoption of IIA Standards require supervisory review of work papers.
- **Assessed or arranged for another MWAA group to assess whether the Office of Audit's work conformed to IIA or other standards and whether its policies and procedures were adequate and up to date.** IIA standards require a periodic assessment to evaluate conformance with the standards. According to the Vice President of Audit, a self-assessment was completed in November 2014.<sup>22</sup> Due to the small size of the Office of Audit, assessment by another MWAA group independent of the office would strengthen the internal controls and enhance compliance with IIA standards.

### *MWAA's Office of Audit Did Not Undergo Periodic External Peer Reviews*

Since being established in 1997, the Office of Audit never had an external peer review, as required every 5 years by IIA standards, until 2014.<sup>23</sup> Without the oversight provided by a full external peer review, the Office of Audit misses the

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<sup>19</sup> IIA PA 1311-1, *Internal Assessments*, "Internal assessments must include: Ongoing monitoring of the performance of the internal audit activity; and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices." At least annually, the results of internal assessments, action plans, and their successful implementation should be reported to senior management and the board.

<sup>20</sup> We reviewed a selection of audit reports prepared by MWAA staff and externally contracted auditors issued from January 2011 to March 2014.

<sup>21</sup> IIA PA 2340-1, *Engagement Supervision*.

<sup>22</sup> We have not obtained or reviewed the results of the self-assessment completed in November 2014.

<sup>23</sup> IIA Standard 1312 requires external peer reviews be conducted at least once every 5 years. Conformance with the audit standards, other than IIA, considered by the Vice President of Audit also require external peer reviews.

opportunity for the assessor to identify ways for the Office to better service its stakeholders and provide more accurate and meaningful results. According to the Vice President for Audit, prior to 2010, the Office relied on Certified Public Accounting firms to conduct 100 percent of the audit work; the absence of audits performed by MWAA personnel precluded any need for peer reviews. The Office of Audit has since begun performing and assuming more responsibilities for audits. According to the Vice President of Audit, a self-assessment with external validation was completed in December 2014.<sup>24</sup> However, external validations are completed by an independent party who reviews and validates the results of the Office's self-assessment, rather than performing a full external peer review. While IIA guidance recognizes there are advantages to self-assessments with external validation, it suggests that small audit activities, such as MWAA, should first undergo a full external peer review before conducting a self-assessment with external validation.<sup>25</sup> A self-assessment with external validation does not allow the validator the opportunity to provide as comprehensive an overview of the audit activity as a full external peer review would provide. For instance, it may not address areas such as benchmarking the Office's practices and interviewing the Board and senior management.

### **The Office of Audit Has Insufficient Audit Policies and Procedures**

The Office of Audit does not have a process for issuing formal audit policies and procedures. For example, the Office of Audit does not have a manual governing office operating activities, in accordance with IIA guidance.<sup>26</sup> In some cases, the Vice President of Audit communicates policies to staff verbally or provides limited written policies that are not signed and dated. Moreover, IIA guidance<sup>27</sup> indicates audit policies should be approved at a higher organizational level than the Vice President of Audit. The Vice President of Audit provided us revised written policies and procedures on November 20, 2014, but they were not signed, dated, or approved at a higher organizational level.

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<sup>24</sup> We have not obtained or reviewed the results of the self-assessment or external validation completed in December 2014.

<sup>25</sup> IIA Practice Guide, *Quality Assurance and Improvement Program*.

<sup>26</sup> IIA PA 2040-1, *Policies and Procedures*. The chief audit executive must establish policies and procedures to guide the internal audit activity. Additionally, audit staff may be directed and controlled through memoranda that state policies and procedures to be followed. In addition, IIA Standard 1312- External Quality Assessments: Results, Tools, Techniques and Lessons Learned recommends developing an audit policies and procedures manual to help guide the operations of the audit office.

<sup>27</sup> IIA PA 1110-1, *Organizational Independence*. "Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit activity. Administrative reporting typically includes: Administration of the internal audit activity's policies and procedures." Currently, the Vice President of Audit reports solely to the Board of Directors and does not report to the CEO.

The Office of Audit also lacks audit policies and procedures in a number of key areas, contrary to IIA standards.<sup>28</sup> For example, the Office does not have:

- a policy for obtaining or tracking continuing professional development. IIA standards specify that internal auditors are to demonstrate their proficiency through continuing professional development.<sup>29</sup> According to the Vice President of Audit, staff is required to obtain 40 hours of training annually, and she mentally tracks their training received. In April 2014, the Vice President of Audit provided the Office's continuing professional development data, which demonstrated that three of the four staff, including the Vice President of Audit, did not obtain 40 hours of continuing professional development annually between 2011 and 2013.<sup>30</sup> After we informed MWAA of this, the Vice President of Audit informed us that data previously provided was incomplete. MWAA then provided data that showed only the Vice President of Audit and one audit manager did not obtain 40 hours of continuing professional development annually between 2011 and 2013. MWAA's incomplete response to our initial request demonstrates the need for a policy that includes documentation and formal tracking.
- a standardized procedure for documenting and controlling audit work paper files. IIA guidance states that audit executives should establish work paper policies and that a standardized approach can improve efficiency.<sup>31</sup> All audit standards considered by the Vice President of Audit, prior to adoption of IIA standards, require a standardized procedure for documenting audit work paper files. For example, the Office of Audit does not maintain audit evidence in the same file location. Instead, electronic evidence is maintained in multiple locations, such as email files and secured network drives while hard copy evidence is maintained in a locked storage room and in auditors' offices. On three occasions when we requested specific audit files, MWAA provided the wrong audit report or work paper files. Without a standardized procedure, the Office of Audit continues to risk inefficiencies and errors in documenting and controlling its work paper files.

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<sup>28</sup> IIA PA 2040-1, *Policies and Procedures*. The chief audit executive must establish policies and procedures to guide the internal audit activity. Additionally, audit staff may be directed and controlled through memoranda that state policies and procedures to be followed.

<sup>29</sup> IIA PA 1210-1, *Proficiency*. The internal auditor is to demonstrate their proficiency through continuing professional development.

<sup>30</sup> During the period of our review, the Office of Audit hired two of the now six auditors; these two auditors were excluded in our assessment of who obtained continuing professional development since they were not employed by MWAA during the entire period of our review.

<sup>31</sup> IIA PA 2330-1, *Documenting Information*.

- a policy for ensuring auditor independence,<sup>32</sup> notifying the Vice President of Audit of impairments, and remediating impairments<sup>33</sup> as required by industry best practices. Without adequate policies and procedures relating to independence, MWAA is at risk that auditors are not (or appear not) capable of impartial judgment when conducting audits and reporting on their work. Instead, the Office of Audit relies on MWAA's code of ethics and annual financial disclosure, although these documents do not cover all safeguards against impairments.<sup>34</sup> When we asked about the lack of policy regarding auditor independence, the Vice President of Audit stated that the office reports to the Board of Directors and is organizationally independent of Management. While organizational independence is important, it is distinct from and not a substitute for individual auditor independence.

### **The Office of Audit Does Not Adequately Support Its Reports or Follow Industry Best Practices and Standards**

MWAA's audit reports and work papers generally lack supporting documentation. Such documentation is required according to IIA standards,<sup>35</sup> which state that auditors must document relevant information to support audit results. As part of our review, we selected five audit reports and requested all of the supporting work papers. Overall, we found that the audit documentation was not prepared in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the documentation the nature, timing, extent, and results of procedures performed as required by industry best practices.<sup>36</sup> Specifically, MWAA provided work papers that did not (1) identify the sources of information used, (2) explain the methodology for conducting the review, (3) include planning documents, and (4) document supervisory reviews. In particular, the Office of Audit's work papers did not clearly support 19 of 30 facts and figures in 4 of 5 of the reports we reviewed.

For example, we selected the following statement: "More than 200 server and network devices were not located and recorded" in MWAA's audit report on Inventory Controls for Information Technology Equipment. However, since MWAA's work papers for this audit included over 500 documents, it was not clear which ones included the information regarding the number of servers and network devices or a method to compute the number of servers and network devices. When

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<sup>32</sup> GAGAS 3.88 Audit organizations should establish policies and procedures on independence, legal, and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain their independence and comply with applicable legal and ethical requirements.

<sup>33</sup> IIA PA 1130-1, *Impairment to Independence or Objectivity*.

<sup>34</sup> For example, safeguards such as reporting relationships, segregation of duties, and restrictions on responsibilities are not addressed.

<sup>35</sup> IIA PA 2330-1, *Documenting Information*.

<sup>36</sup> GAGAS 6.79 *Audit Documentation* and Public Company Accounting Oversight Board Auditing Standards No. 3 *Audit Documentation*.

we asked for clarification of the information provided, MWAA officials explained the number was the sum of totals from three separate spreadsheets and identified which ones. However, since the audit staff did not document their methodology, without this clarification, an outside party could not understand how the conclusion was reached. Additionally, MWAA included statements in final audit reports that were not supported in the work papers, such as documentation of a meeting write up.

MWAA's Office of Audit also does not cite applicable standards or nonconformance in audit reports or planning documents. Without specifying standards used for an audit, the Office of Audit lacks a framework for establishing the basis for ensuring audit quality and evaluating internal audit performance. MWAA's own internal audit policy requires that audit reports identify the standards used in the audit, as do many audit standards.<sup>37</sup> The Vice President of Audit stated that standards are not cited in MWAA audit reports in order to shorten them. Yet external auditors contracted by the Office of Audit cited conformance with audit standards in one paragraph, without significantly lengthening the report. According to the Vice President of Audit, the standards used for each audit can be found in the planning documents. However, none of the five MWAA prepared reports that we reviewed noted the standards used, or identified them in the planning documents. The Office of Audit's policy also does not require disclosure of nonconformance with standards in its audit reports, contrary to IIA requirements.<sup>38</sup>

### **The Office of Audit Lacks Documentation for Risk Assessment and Audit Plans**

The Office of Audit's processes for developing audit plans and conducting risk assessments is not sufficiently documented. Such documentation is critical in demonstrating how the Office identifies and prioritizes MWAA activities for future audits.

- The Office of Audit does not document input from MWAA's senior management and Board for its Risk Assessment and Audit Plans. Without such documentation, stakeholders cannot know and we cannot determine if, or to what extent, the Vice President of Audit considered input from key

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<sup>37</sup> GAGAS 4.18 *Reporting Auditors' Compliance with GAGAS*, AICPA Statements on Auditing Standards AU-C §700.31 *Auditor's Report*, and Public Company Accounting Oversight Board Auditing Standards No. 4 *Auditor's Report*.

<sup>38</sup> IIA Standard 1321, *Use of Conforms with the International Standards*. The Office of Audit may state that the internal audit activity conforms with the IIA standards only if the results of the quality assurance and improvement program support this statement. IIA Standard 2431, *Engagement Disclosure of Nonconformance*. When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved and reason(s) for nonconformance.

stakeholders in identifying risks, prioritizing audits, and helping MWAA obtain the most value from its audit plans. Instead, the Vice President for Audit relies on personal judgment in developing the plans. To help identify risks, IIA guidance recommends leveraging the work of management and other assurance functions,<sup>39</sup> such as the Board and the CEO, and documenting discussions with senior management and the Board.

- MWAA’s Risk Assessments and Audit Plans Reports (reports) are not adequately documented, contrary to IIA standards.<sup>40</sup> These documentation gaps could result in poor prioritization and utilization of audit resources in identifying and examining areas that are in most need of improvement or have the potential for fraud, waste, abuse, or improprieties. The Office of Audit’s 2012, 2013, and 2014 reports say the audit plans are based upon risk assessments; however, the rationale for the risk levels identified is not documented. Further, MWAA did not provide documentation to demonstrate that the process described in the reports for identifying risk levels was actually followed. For example, MWAA’s reports state that the Office of Audit considers over 25 questions such as “Are supply inventories accurate?” and “Are safety and security-related risks monitored?” However, when we asked the Vice President of Audit for responses obtained from senior management and the Board to these questions, we were told that these questions are considered but not posed to others. This is contrary to IIA standards, which state that the input of senior management and the Board must be considered in this process. Further, the reports do not explain why slightly over half of all auditable activities were identified as “high risks” and why the audit plans include audits of low risk activities without addressing all high risk activities. MWAA senior management also advised us that it does not agree with the Office’s emphasis on certain types of audits it views as lower risk and would prefer that it conduct more operational audits or reviews likely to reveal inefficiencies.

## CONCLUSION

Since MWAA’s Office of Audit has not established or carried out an audit quality assurance and improvement program in full conformance with applicable standards, it may not be achieving the most value from its audits. While the Office is beginning to make improvements, it faces continuing challenges to performing

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<sup>39</sup> IIA’s Practice Advisory 2120-3, *Assessing the Adequacy of the Risk Management Process*. “When developing the audit plan, internal audit should leverage the work of management and other assurance functions to help identify the risks....”

<sup>40</sup> IIA Standard 2120 (above), and IIA Standard 2010, Planning. “The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.” See also Interpretation 2010.A1 of IIA Standard 2010: “The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually.”

high quality work and achieving its goal of providing reasonable assurance that MWAA has an effective system of internal controls encompassing financial, administrative, operational, and computer controls for the Authority. Based upon our previous work identifying considerable MWAA internal control weaknesses, it is imperative that MWAA's Office of Audit perform effectively—in full compliance with auditing standards. Enhanced oversight, policies and procedures, documentation, and audit planning will be critical to establishing an effective QAIP.

## **RECOMMENDATIONS**

We recommend that MWAA's Board of Directors:

1. Develop and implement a dual reporting structure for the Office of Audit to both the Board and CEO in accordance with IIA standards.

We recommend that MWAA's Board of Directors ensure that the Vice President of the Office of Audit:

2. Develop and implement a procedure for periodic assessments of the Office of Audit's quality assurance and improvement program from an office independent from the Office of Audit. This procedure should include annually providing the results of the assessment and, if necessary, an action plan for addressing recommendations to senior management and the Board.
3. Develop and implement a policy to obtain an external peer review of MWAA's Office of Audit with senior management and the Board participation in the selection of the reviewer. The policy should include providing the results of the assessment and, if necessary, an action plan for addressing recommendations to senior management and the Board.
4. Develop and implement a procedure for issuing Office of Audit policies, including approval of the policies by senior management and the Board.
5. Develop and implement Office of Audit policies to include the following:
  - a. obtaining and tracking continuing professional development.
  - b. documenting and controlling audit work paper files.
  - c. documenting individual independence and reporting impairments and remediation of impairments.
  - d. requiring supervisors to review and document the review of all work from planning to reporting, including the review of work papers.

6. Amend and implement the Office of Audit's policy to cite conformance or nonconformance with standards in its audit reports.
7. Develop and implement processes for developing audit plans and conducting risk assessments, including the following:
  - a. consulting with the CEO and other senior management officials when preparing the annual Risk Assessment and Audit Plans and ensuring that discussions and views on these matters are documented for future reference and shared with the Board of Directors.
  - b. annually assessing and documenting auditable activities and their associated risks levels, the Office of Audit's priorities, and the basis for the prioritization.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided MWAA with our draft report on February 11, 2015, and received its response on March 11, 2015, which is included as an appendix to this report. MWAA concurred with all seven of our recommendations and provided appropriate planned actions and completion dates. Accordingly, we consider these recommendations resolved but open pending completion of MWAA's planned actions.

We appreciate the courtesies and cooperation of MWAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225 or Ken Prather, Program Director, at (202) 366-1820.

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cc: DOT Audit Liaison, M-1

## **EXHIBIT A. SCOPE AND METHODOLOGY**

We conducted this performance audit from April 2014 through February 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our review of MWAA's Office of Audit focused on whether it has established and carried out an audit quality assurance and improvement program in accordance with applicable standards. As such, we reviewed IIA standards, GAGAS, AICPA Generally Accepted Auditing Standards (GAAS), Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control- Integrated Framework, and MWAA's Office of Audit policies and procedures. Additionally, we interviewed MWAA's Board members, CEO, Office of Audit staff, Internal Controls and Compliance division staff, and other MWAA staff. We also reviewed the Office of Audits training records and the Audit Charter for compliance with IIA standards and guidance.

MWAA's Office of Audit issued 143 work products between January 2011 and March 31, 2014. We excluded 11 work products from our review, such as MWAA's financial statement audit reports and audit follow up recommendation reports, which is a non-audit service performed by MWAA. From the 132 remaining audit products, we selected 5 audit reports prepared by MWAA's Office of Audit<sup>41</sup> and 3 audit reports prepared by external audit firms. The audit reports were selected based on the costs savings identified, number of recommendations included, and whether the reports cited audit standards. Additionally, we reviewed all of the Office of Audit's Risk Assessment and Audit Plans during the period of our review for compliance with IIA standards and guidance.

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<sup>41</sup> This includes work conducted by the adjunct auditor, who is a temporary staffing firm employee whose work is reviewed by Office of Audit managers. The reports he develops are issued by the Office.

**Table 2. Audit Reports Selected for Review**

<b>Audit Reports Prepared by MWAA Staff</b>
Parsons Transportation Group Inc., Overhead Rate Review 2008-2011
Westfield Concession Management, LLC - Chipotle Mexican Grill, Lease Payments Compliance Audit at Washington Dulles International Airport
Inventory Control for Information Technology Equipment
Dulles Taxi Systems, Inc. at Dulles Airport
L.S. Caldwell & Associates Inc. Overhead Rates Review Year Ending December 31, 2009
<b>Audit Reports Prepared by External Auditors</b>
MWAA Phase 1 Metrorail Project Performance Audit-Design –Build Invoice Review and Approval Process
Sole Source Contract Compliance at Dulles Airport
Pension Audit for the Regular Employees and Police and Firefighters

For the five audit reports prepared by Office of Audit staff, we conducted a review by completing Council of the Inspectors General on Integrity and Efficiency (CIGIE) Checklist for Review of Performance Audits and assessing MWAA's conformance with IIA standards and guidance. For these audit reports we selected 30 statements we deemed critical and reviewed the corresponding work papers to determine if they were supported. The scope of our audit did not include a determination as to whether the statements that were not clearly supported by MWAA work papers were accurate.

For the three audit reports prepared by an external audit firm, we conducted a review by completing the CIGIE Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accountant firm. Our review of the three external audits found adequate monitoring by MWAA of external auditors.

**EXHIBIT B. ENTITIES VISITED OR CONTACTED**

As part of this audit, we visited MWAA and interviewed MWAA's Board members, CEO, Office of Audit staff, Internal Controls and Compliance division staff, and other MWAA staff. We also contacted representatives of the Institute of Internal Auditors (IIA) for information concerning IIA standards and guidance.

**EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT**

<b><u>Name</u></b>	<b><u>Title</u></b>
Ken Prather	Program Director
Rachel Alderman	Project Manager
Allan Reid	Project Manager
Jerri Bailey	Senior Analyst
Marguerite Nealon	Senior Auditor
Patti Lehman	Auditor
Carolynn Kublnick	Auditor
Andrea Nossaman	Senior Writer-Editor
Seth Kaufman	Senior Counsel

## APPENDIX. AGENCY COMMENTS

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY



MEMORANDUM

Subject: Management Response to Office of Inspector General Draft Report on  
MWAA's Office of Audit Quality Assurance and Improvement Program

Date: March 11, 2015

From: Frank M. Conner III, Chairman, MWAA Board of Directors

John E. Potter, MWAA President and CEO

To: Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition & Procurement Audits

The Metropolitan Washington Airports Authority (Airports Authority or MWAA) appreciates the OIG draft audit report and its recommendations for improving MWAA's Office of Audit's quality assurance and improvement program. The Board of Directors and senior management of the Airports Authority welcome these recommendations and intend to implement them as expeditiously as feasible.

As you are aware, the Airports Authority has taken significant steps to improve internal control weaknesses cited in previous OIG reports and remains fully committed to continued improvement of our internal control environment. In 2014, the Airports Authority expanded the Risk Management (formerly Audit-Legal) Committee's scope to include internal controls and enterprise-wide risk management. In addition, the Board approved creation of an Office of Corporate Risk and Strategy, which includes the Internal Controls and Compliance Division.

Summarized below is MWAA's response to each recommendation in your draft report, including a discussion of the actions already taken to address certain deficiencies as they were noted through the course of your audit. The Vice President for Audit retired, effective February 28, 2015, and the Airports Authority is undertaking a competitive, nationwide search to identify her replacement. The compliance dates we have committed to below are designed to enable the vice president's successor to implement each recommendation with full ownership and accountability. We assure you we will diligently act on our responses to your recommendations, with the goal of achieving results prior to our targeted completion dates.

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## Recommendations and Responses

**Recommendation 1:** Develop and implement a dual reporting structure for the Office of Audit to both the Board and CEO in accordance with IIA standards.

**Response:** Concur. At its next scheduled meeting on March 18, 2015, the Risk Management Committee of the Board of Directors will consider a recommendation supported by the Chairman, Vice Chairman, and both Risk Management Committee Co-Chairs to amend the Office of Audit Charter to establish and implement a dual reporting structure for the Office of Audit to both the Board and CEO in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). This recommendation will then be considered by the full Board of Directors. In addition, the Airports Authority's Statement of Functions and organizational chart will reflect the same.

**Recommendation 2:** Develop and implement a procedure for periodic assessments of the Office of Audit's quality assurance and improvement program from an office independent from the Office of Audit. This procedure should include annually providing the results of the assessment and, if necessary, an action plan for addressing recommendations to senior management and the Board.

**Response:** Concur. The Risk Management Committee of the Board of Directors will ensure that the Vice President for the Office of Audit develops and implements a procedure for periodic assessments of the Office of Audit's quality assurance and improvement program from an independent office by December 31, 2015. Results of each independent assessment, including action plans for addressing any recommendations, will be reported to the Risk Management Committee, MWAA Board, and MWAA senior management at least annually. The Office of Audit Charter will also be amended to reflect this requirement.

**Recommendation 3:** Develop and implement a policy to obtain an external peer review of MWAA's Office of Audit with senior management and the Board participation in the selection of the reviewer. The policy should include providing the results of the assessment and, if necessary, an action plan for addressing recommendations to senior management and the Board.

**Response:** Concur. The Office of Audit Charter will be amended to include this external peer review requirement by June 30, 2015, and an external peer review of the Office of Audit will be obtained during 2016.

**Recommendation 4:** Develop and implement a procedure for issuing Office of Audit policies, including approval of the policies by senior management and the Board.

**Response:** Concur. The Office of Audit will develop and implement a procedure for issuing its policies by December 31, 2015.

**Recommendation 5:** Develop and implement Office of Audit policies to include the following: (a) obtaining and tracking continuing professional development; (b) documenting and controlling audit work paper files; (c) documenting individual independence and reporting impairments and remediation of impairments; (d) requiring supervisors to review and document the review of all work from planning to reporting, including the review of work papers.

## Appendix. Agency Comments

**Response:** Concur. The Office of Audit has already commenced work on the development of these policies, including documenting and controlling audit work paper files and documenting supervisor reviews of audit work and work papers. In addition, the Office of Audit is in the process of exploring software solutions, which would standardize required audit procedures and include automated controls for evidencing supervisor review of all work and work papers. These four policies will be developed and implemented by December 31, 2015.

**Recommendation 6:** Amend and implement the Office of Audit's policy to cite conformance or nonconformance with standards in its audit reports.

**Response:** Concur. The Office of Audit will amend and implement this policy by December 31, 2015.

**Recommendation 7:** Develop and implement processes for developing audit plans and conducting risk assessments, including the following: (a) consulting with the CEO and other senior management officials when preparing the annual Risk Assessment and Audit Plans and ensure that discussions and views on these matters are documented for future reference and shared with the Board of Directors; and (b) annually assessing and documenting auditable activities and their associated risk levels, the Office of Audit's priorities, and the basis for the prioritization.

**Response:** Concur. The Office of Audit will develop and implement these processes by December 31, 2015.

We appreciate the opportunity to offer additional perspective on the OIG draft report and hope our response conveys the full commitment of the Airports Authority Board of Directors and senior management to thoroughly address and implement each of your recommendations. Please contact Julia Hodge at (703) 417-1247 with any questions or requests for additional assistance.