

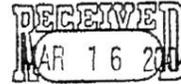
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March 15, 2004



Ms. Lucy Querques Denett
Associate Director
Minerals Management Service
Department of Interior

We have reviewed the system of quality control for the Minerals Management Service's (MMS's) Minerals Revenue Management Royalty Audit Federal Function in effect for the 2-year period ended December 31, 2002, and issued our qualified opinion dated March 15, 2004. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting whether MMS's internal quality control system was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency (PCIE) and was being complied with for the 2-year period reviewed to provide reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. We conducted our review in conformity with standards and guidelines established by the PCIE. Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we identified reportable conditions, which were considered in determining our opinion set forth in our report dated March 15, 2004. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures. We are also providing some observations and recommendations for improvement.

Audit Universe

MMS defined the scope of our quality control review to be audit cases closed during the 2-year period ending December 31, 2002. (b)(2)high (b) (5)

- To test the status of open cases, we selected 10 audit cases from a listing of 359 cases that were opened before January 1, 2001, and were still open at the time of our review. We found that five of the cases were open awaiting actions such as appeal or collections.

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- In response to our inquiry, we were provided a list of 38 "Special Projects" that were closed during the 2-year period ending December 31, 2002. To understand why these

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Recommendations

1. MMS is in the process of updating its Case Tracking System and should ensure that the System correctly classifies case status.
2. For instances where MMS needs to conduct preliminary work to determine if an audit is warranted, it should consider establishing a "survey" code rather than opening an audit case that may need to be shortly closed as a non-audit. For accounting purposes, time spent on surveys that subsequently result in an audit case can be transferred to the case when it is opened.

View of Responsible Official

The MMS concurs with both recommendations. We are currently revamping our Case Tracking System (CTS), renamed Compliance Information Management (CIM), for implementation in August 2004. In addition, we are modifying the checklist we apply to our audit cases to include a step requiring the compliance supervisor to assure that the audit case is properly classified before it is closed.

The new CIM system contains a function code for the survey phase of an audit or compliance review. When a compliance review or the survey phase of an audit determines that an audit is warranted, a new CIM subcase will be opened clearly identifying the assignment as an audit.

Changing Closing Criteria

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Recommendations

1. MMS should change the criteria for closing cases so that they are closed when either the report is issued or a decision is made to close the case without a report. A subsequent "non-audit" case could then be opened for enforcement and resolution.
2. MMS should discuss with the Department of Interior Inspector General a scenario for the next quality control review that includes the following:
 - The validity of a universe of cases closed for the 2-year period ending December 31, 2004, that would include only the new criteria discussed above for closed cases.

- Considering whether only cases opened since fiscal year 2002 and closed during the 2-year period ending December 31, 2004 will provide a sufficient number of cases to be sampled for the quality control review.

View of Responsible Official

The MMS agrees with the recommendations. We intend to modify our policy for closing cases in CIM so that cases will be closed when (1) we issue an order to pay or perform or (2) we issue a report indicating no findings resulting from the audit. We also intend to incorporate into our Audit Quality Improvement Action Plan an action item to discuss future universe audit case selection criteria with the OIG.

Continuing Professional Education (CPE) Requirements

Government Auditing Standards (GAS) require that each staff member working on audits meet requirements of 80 hours of CPE each reportable 2-year period, with at least 24 hours in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, at least 20 hours should be completed in each of the 2 years.

The Inspector General's report found that 12 percent of MMS auditors had not complied with the CPE requirements, and its management letter noted problems in supporting documentation for CPE. For the reporting period of our quality control review -- the 2-year period ending December 31, 2002 -- we found an increased emphasis on CPE over what the Inspector General noted in its report for the prior reporting period. Data initially provided to us by MMS indicated that all current staff had met the CPE requirements.

To test CPE compliance, we reviewed the supporting CPE documentation for 45 MMS staff. Our judgmental sample included 27 staff who had the fewest CPE credits (80 to 100 hours) and additional selected staff. In reviewing supporting documentation we looked for the most verifiable support: certificates of course completion and sign-in sheets being the best support and other documentation being less adequate to unacceptable.

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In response to the Inspector General's report and management letter, MMS has already begun placing more emphasis on staff meeting CPE requirements and the adequacy of supporting documentation.

Recommendation

MMS should establish standard criteria for documenting CPE requirements that meet the *Government Auditing Standards*.

View of Responsible Official

The MMS concurs with the recommendation. We appreciate TCBA's acknowledgement of the significant emphasis that MMS has placed on staff meeting CPE requirements. The MMS is in the process of establishing standard and consistent criteria for documenting CPE requirements across both compliance organizations.

Audit Products

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Recommendation

MMS should ensure that its audit products -- enforcement documents and audit reports when there are no enforcement documents -- include all the reporting elements as required by *Government Auditing Standards*.

View of Responsible Official

The MMS agrees with the recommendation and has already taken action. On October 30, 2003, the Assistant Program Directors for Onshore and Offshore Compliance and Asset Management jointly issued updated process improvement guidance to all compliance/audit offices and the State and Tribal Contract Administrator. The guidance states that enforcement documents (Issue Letter, Order to Pay, and Order to Perform) will continue to serve as the audit report as long as the documents adhere to the 2003 Generally Accepted Government Auditing Standards (GAGAS). In situations where there are no enforcement documents, an audit report must be provided to the auditee. The audit report must adhere to the 2003 GAGAS. To facilitate consistent application of this policy, MMS will be updating its enforcement document templates to assure they meet 2003 GAGAS.

New Compliance Strategy

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Using Non-Audit Staff on Audits

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GAO said that staff who are not GS-511 auditors can work on GAS audits or other work meeting GAS as long as they meet the CPE standards. This is how GAO uses its multidisciplinary staff on performance audits. Generalist non-auditor staff would have to meet GAS CPE requirements; however, GAS (GAS 3.47) also allows for the use of external and internal specialists who would not be required to meet the CPE requirements.

Thompson, Cook, Bazilio & Associates, PC

Ms. Lucy Querques Denett
March 15, 2004

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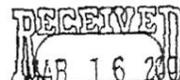
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March 15, 2004

Ms. Lucy Querques Denett
Associate Director
Minerals Management Service
Department of Interior



We have reviewed the system of quality control for the Minerals Management Service's (MMS's) Minerals Revenue Management Royalty Audit Federal Function in effect for the 2-year period ended December 31, 2002. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the MMS system of quality control to the extent we considered appropriate. These tests included a review of the 33 closed audit cases identified in Enclosure 1.

In performing our review, we have given consideration to the policy statement on quality control and external reviews, dated February 2002 issued by the PCIE. That statement indicates that quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of a system of quality control depends on various factors such as the size of the audit function, the location of its offices, the nature of the work and its organizational structure.

As described in Enclosure 2, our review disclosed material weaknesses. A material weakness for peer review reporting purposes is defined as a condition in which the design or operation of the internal control system does not reduce to a relatively low level the risk that (1) applicable auditing standards have been adopted and are being followed, and (2) auditing policies and procedures have been established and are being followed. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system or all instances of noncompliance.

In our opinion, except for the material weaknesses, the system of quality control for the Royalty Audit Function in effect for the 2-year period ended December 31, 2002, was designed in accordance with the quality standards established by the PCIE and was complied with for the 2-year period then ended to provide MMS with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Therefore, we are issuing a qualified opinion on your system of audit quality control. We have identified in a separate Letter of Comments dated March 15, 2004, other matters that came to our attention, which do not affect our overall opinion.

Thompson, Cobb, Bazilio & Associates, PC

Enclosures

<u>Case Number</u>	<u>Part Number(s)</u>	<u>Date Closed</u>
9920048	2	2/27/2001
9930058	1,3	9/15/2001
9930075	1	12/31/2002
9970019	1	6/7/2001
9665502	10,929	10/29/2002
9920050	3	6/1/2001
9970025	41	12/31/2001
9970025	391	9/24/2001
0270005	1,2	5/21/2002
9870012	1	6/30/2001
0270006	1	5/8/2002
0180019	1	10/31/2002
9940005	1,2	3/26/01 & 12/31/01
9920054	2	8/31/2001
9940037	3	5/31/2002
9940044	1,2	9/30/2002
9920061	2	12/31/2001
9940015	1,2	3/31/2001
9930074	4	8/9/2001
9970025	36	8/30/2002
9970025	498	7/30/2002
9240417	2	5/31/2002
9920040	2	10/30/2002
9930049	5,6	10/30/2002
9720002	514	5/30/2001
9940013	5	11/15/2002
9920021	2,3	5/13/2002
0110022	3	6/29/2001
9720012	1	12/31/2001
9640501	12,13	8/29-30/2002
9940041	3	8/21/2001
0020008	1,2	8/1/2002
0220013	1	7/31/2002

Material Weaknesses

Systemic Problems in Audit Cases

While there were some examples of cases with excellent audit documentation, systemic problems were found in many of the other audit cases reviewed. These problems were caused by

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The details for all case reviews were provided to MMS management.

We also found two cases where there was insufficient support for case closure and/or resolution:

1. Case No. 99-30049.005 and .006, closed October 30, 2002. (b)(2)high (b) (5)

(b)(2)high (b) (5)

2. Case No. 99-40005.001 and .002, closed December 31, 2001. (b)(2)high (b) (5)

(b)(2)high (b) (5)

In addition to the 33 cases summarized above where we applied the PCIE checklist, we requested files for another 33 cases. Our objective was to verify that the case files existed and could be retrieved. For all 33 cases we were provided either the case files or documentation that supported their location or disposition.

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1. Case No. 99-30042.001 and .004, closed February 6, 2001.

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(b)(2)high (b)(5)

2. Case No. 97-60019.015, closed October 2, 2001.

(b)(2)high (b)(5)

(b)(2)high (b)(5)

3. Case No. 01-10318.001 and .002, closed May 10, 2002.

(b)(2)high (b)(5)

(b)(2)high (b)(5)

In response to the Department of Interior Inspector General report "Audit of the Minerals Management Service Audit Offices", No. 2003-I-0023, dated March 31, 2003, MMS has begun several corrective actions addressing the above problem areas.

Ineffective Internal Quality Control Reviews

The objective of the Internal Quality Control Review (IQCR) is to test the compliance audit work and determine if the work follows guidelines set forth in the APM and GAS.

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In response to the Inspector General's report, MMS has revamped its IQCR process and has a schedule to bring IQCRs into compliance with its 3-year cycle.

Recommendations

We believe that further improvements are possible. As with the scope of our quality control review, the IQCR looks only at closed cases. However, the audit work on these cases can be several years old. As a result the IQCR is not reviewing current staff performance and may not be reviewing audits conducted against current policy and procedures. Also, the IQCR does not issue a summary or recap report, which could be used to alert MMS management and other offices to systemic problems noted at several locations. We recommend that:

1. IQCRs look at cases where the audit work and/or report have recently been completed.
2. An annual or other periodic report be issued that summarizes IQCR findings for dissemination and action by other MMS audit offices.

Views of Responsible Official

The MMS concurs with these recommendations and continues to be proactive in improving its IQCR program. We have implemented all of the Office of Inspector General (OIG) recommendations related to our IQCR process and are already addressing additional recommendations from the Peer Review.

In response to recommendation 1, we have modified our IQCR case selection criteria to include audit cases for which the audit work has recently been completed.

In response to recommendation 2, we have implemented an improved IQCR follow-up process that requires the preparation of an action plan outlining corrective action resolutions and implementation dates. We are working to develop a detailed internal report of IQCR findings for dissemination to all MMS audit offices on a quarterly and annual basis. In addition, we currently provide a high-level report on IQCR findings, including noteworthy items and concerns at each State and Tribal Royalty Audit Committee meeting. This process facilitates feedback on best practices and also identifies areas requiring improvement to all committee members. Finally, MMS is working to include IQCR findings into a new Department-wide management tracking system to facilitate overall program accountability and planning. The new tracking system is scheduled for implementation in the spring of FY 2004.

Minerals Management Service
Quality Control Review Debrief



Presentation to
MMS Management
December 2005

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MMS QCR Debrief

Presentation covers:

- ❖ Scope and Methodology
- ❖ Opinion
- ❖ Observations

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MMS QCR Debrief

Scope and Methodology

- ❖ Used PCIE guidelines to evaluate MMS's system of quality control to include closed audit cases, internal quality control reviews, CPEs, etc.

- ❖ Reviewed 16 of 58 closed audit cases. Also looked at some "other than audit" closed cases and open cases.

3





MMS QCR Debrief

Opinion

- ❖ Obvious that MMS spent considerable time and resources improving quality control since our qualified opinion on March 15, 2004.
- ❖ TCBA issued an Unqualified (Unmodified) Opinion.

4



MMS QCR Debrief

Observations

- ❖ TCBA did not issue a Management Letter – nothing rose to the level of a reportable finding.

Some Observations:

- ❖ Details of Case Reviews
- ❖ IQCR and TPR Feedback
- ❖ CPEs

5



MMS QCR Debrief

Details of Case Reviews

- ❖ Many cases were excellent examples of compliance with policies and procedures and audit documentation.
- ❖ We suggest follow up on two cases.

6



MMS QCR Debrief

Details of Case Reviews - continued

❖ Case 03-20002.001. (b)(2)high (b) (5)

(b)(2)high (b) (5)

❖ Nothing in closed case file indicates what, if anything, was done with the referrals.

❖ A closure memo in the file would be helpful and provide an audit trail. 7



MMS QCR Debrief

Details of Case Reviews - continued

❖ Case 04-90052.001. (b)(2)high (b) (5)

(b)(2)high (b) (5)

❖ An action plan established on June 1, 2005 had not been done at the time of our field review on September 15, 2005. However, the due date was not until September 30, 2005. 8



MMS QCR Debrief

Details of Case Reviews - continued

❖ Given the significance of the problems attributed to the supervisor and an action plan which was to

- ❖ discuss the issues with the supervisor
- ❖ review the errors in the sub case and correct them, and
- ❖ review the supervisor's other cases,

resolution should have been more timely, rather than waiting 4 months or longer. 9



MMS QCR Debrief

Details of Case Reviews - continued

- ❖ (b)(2)high (b) (5)
- ❖ (b)(2)high (b) (5)
- ❖ (b)(2)high (b) (5)

(b)(2)high (b)(5) 10



MMS QCR Debrief

IQCR and TPR Feedback

- ❖ We met with the audit supervisor and/or audit team on each of our 16 sample cases.
- ❖ We discussed our findings/observations and offered suggestions – often relating best practices we observed on other cases.
- ❖ Staff felt this was very helpful and commented they would like to receive similar feedback on their cases reviewed by IQCR or the TPR.
- ❖ We suggest MMS consider this.

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MMS QCR Debrief

CPE Documentation

- ❖ All staff in our sample met CPE requirements.
- ❖ We noted a couple of issues and discussed them with Gary

- ❖ (b)(2)high (b) (5)
- ❖
- ❖

12



MMS QCR Debrief

Summary

- ❖ The hard work that MMS did in preparing for the Peer Review was very evident.

- ❖ We appreciate the cooperation of MMS staff during our Peer Review.

Mineral Management Service Quality Control Review Debrief



Presentation to
MMS Staff
March 29, 2004 to April 1, 2004

TCBA
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MMS QCR Debrief

Presentation will cover:

- ❖ Who is TCBA
- ❖ What is a Quality Control Review
- ❖ Scope of TCBA's review of MMS
- ❖ What TCBA found and reported
- ❖ MMS response and continuing actions
- ❖ Future plans

2

MMS QCR Debrief

Overall objectives:

- ❖ To provide MMS staff with an overview of the QCR results and the criteria used
- ❖ Answer your questions
- ❖ Increase your awareness as you conduct and document audits, and open and close cases

3

MMS QCR Debrief

- ❖ Who is TCBA
 - CPA and consulting firm, recently celebrated its 20-year anniversary
 - Nearly 200 professional staff
 - Federal, state, local, corporate and non-profit clients
 - QCR staff

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MMS QCR Debrief

- ❖ What is a Quality Control Review
 - Independent, external review of internal quality control system
 - Uses President's Council on Integrity and Efficiency (PCIE) Guidelines to conduct QCR
 - Foundation is *Government Auditing Standards (GAS)*, the Yellow Book
 - Audit organizations are required to have a QCR every 3 years; otherwise they must note in their reports that they do not meet GAS

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MMS QCR Debrief

- ❖ What is a Quality Control Review (cont)

Objective: QCR's foster quality audits through an independent assessment of the effectiveness of the internal quality control system in providing reasonable assurance that applicable audit standards and requirements are being followed.

The program is intended to be positive and constructive rather than negative or punitive.

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MMS QCR Debrief

- ❖ What is a Quality Control Review (cont)

It's importance:

Meeting GAS, as evidenced by a Quality Control Review, gives credibility to MMS audit products (Issue Letters, Orders to Perform and Orders to Pay) which can be the subject of legal challenges.

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MMS QCR Debrief

- ❖ What is a Quality Control Review (cont)

- QCR products are:
 - Opinion: Unqualified or qualified
 - Management Letter
 - MMS comments to drafts included

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MMS QCR Debrief

- ❖ Scope of TCBA's review of MMS
 - DOI Inspector General March 2003 report on MMS Audit Offices recommended an external QCR
 - TCBA reviewed the 2-year period ending 12/31/02
 - Used PCIE QCR checklists
 - Primarily the checklist for audit cases (handout)

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MMS QCR Debrief

- ❖ Scope of TCBA's review of MMS (cont)
 - Internal quality control system (IQCRs)
 - Personnel qualifications and independence
 - Continuing professional education (CPEs)
 - Individual cases from audit universe
 - TCBA visited Denver, Dallas, Houston, Tulsa, and Oklahoma City offices
 - Observations on other areas

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MMS QCR Debrief

- ❖ What TCBA found and reported and MMS response
 - Qualified opinion
 - No surprise to MMS
 - ICQRs need improvement
 - Findings on cases
 - Management Letter
 - Audit universe of closed cases
 - Criteria for closing cases
 - CPEs
 - Audit reports
 - New compliance strategy
 - Using non-audit staff on audits

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response
 - Qualified opinion
 - Was not a surprise to MMS since IG had found similar issues and MMS corrective responses were still in process
 - Opinion and Management Letter are now a catalyst for change and a future unqualified opinion

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response - Opinion
 - ICQR -- Similar findings as IG on need for improvements
 - TCBA recommended:
 - (b)(2)high (b)(5)
 - MMS agreed. Developing an internal quarterly and annual report for all MMS staff.

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response - Opinion
 - Findings on cases
 - Sample reviewed 33 cases in detail across all offices using PCIE checklist
 - (b)(2)high (b)(5)
 - (b)(2)high (b)(5)

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MMS QCR Debrief

- ❖ What TCBA Reported / MMS response - Opinion
 - Finding on 33 cases (b)(2)high (b)(5)
 - (b)(2)high (b)(5)

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MMS QCR Debrief

What TCBA Reported / MMS response -- Opinion

- Finding on cases (continued)
 - (b)(2)high (b)(5)
- TCBA also found:
 - (b)(2)high (b)(5)

MMS QCR Debrief

- ❖ What TCBA Reported / MMS response -- Opinion
 - No recommendations since MMS was already taking corrective actions in response to similar IG findings
 - MMS staffs' use of MMS audit checklist and awareness of QCR/PCIE checklist should resolve issue

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For
 - Staff Qualifications
 - Independence
 - Due Professional Care
 - Proper procedures followed when determining an applicable standard was not to be followed
 - Adequately documented when certain standards did not apply
 - Complied with GAS
 - Used sound judgment in conducting tests and procedures
 - Used sound judgment in evaluating and reporting audit results

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Quality Control
 - Audit Planning
 - Defined objectives, methodology and scope of audit
 - Identified significance and needs of potential users
 - Obtained sufficient background information
 - Considered legal and regulatory environment
 - Considered management controls
 - Considered criteria to evaluate subject matter of audit
 - Followed-up of prior significant findings

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Audit Planning (continued)
 - Skill, knowledge and availability of staff
 - Coordination with other auditors
 - Considered potential sources of data and its validity
 - Criteria for assessing performance (when appropriate)
 - Adequacy of audit program
 - Work of internal auditors
 - Quality control forms

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Supervision
 - Level of instruction
 - Appropriately timed
 - Adequate to ensure audit objectives met and report supported by working papers
 - Points raised by supervisor addressed and cleared
 - Documented in accordance with agency policy
 - Quality control checklists and forms completed

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Evidence and Working Papers
 - Have sufficient competent, and relevant evidence to support findings, judgments, and conclusions in report
 - Written representation about the validity of evidence obtained from audited officials
 - Contain OSM (including sampling criteria), adequate documentation of work performed to support the significant conclusions/ judgments, applicable quality control documents
 - If data from computer-based systems significant to finding, evidence of reliability of data
 - Consultations with internal or external consultants/experts

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Internal Controls
 - Illegal Acts, Other Noncompliance and Abuse
 - Identified significant laws, regulations and other compliance requirements (as contract provisions)
 - Assessed the risks that illegal acts or noncompliance could occur
 - Based on assessment of risk, adequately tested
 - Obtained legal counsel to interpret laws and regulations where appropriate
 - Exercised due professional care in the pursuit of irregularities
 - Work appropriately timed

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Reports of Performance Audits
 - Clearly explained objectives, scope and methodology
 - Included condition, criteria, cause and effect for findings
 - Stated audit was made in accordance with *generally accepted government auditing standards*
 - If standard not followed, appropriately qualified GAS conformance statement and gave effect
 - Included all significant instances of noncompliance

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MMS QCR Debrief

- ❖ What QCR/PCIE Checklist Looks For (continued)
 - Reports of Performance Audits (continued)
 - Used proper perspective for significant instances of noncompliance and abuse
 - Described scope of work on management controls and identified any weaknesses found
 - Included reviews of responsible officials and effective rebuttal
 - Presented information in a manner that is fair, convincing, objective and clear
 - Distributed for timely use by appropriate officials

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MMS QCR Debrief

- ❖ What TCBA Reported / MMS response - Opinion
 - Finding on cases
 - Most important need is documentation
 - If a standard is not followed, explain
 - If a policy or procedure is not followed, explain
 - References to master folders, audit sample, etc
 - Work paper review and sign-offs
 - Cross-indexing, referencing, footling and cross-footling
 - When in doubt, document

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter
 - Audit universe and case closing criteria
 - QCR scope should include an accurate universe of closed cases from which to sample
 - (b)(2)high (b)(5)
 - (b)(2)high (b)(5)

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. Audit Universe
 - MMS' revamped Compliance Information System will include procedures for assuring that cases are properly classified
 - CIM will include a survey code to be followed by a new audit case as warranted. This will help insure that non-audits do not get classified as audits

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. Criteria for closed cases
 - (b)(2)high (b)(5)
 - TCBA recommended and MMS agreed to close "audit" cases when audit work complete / report issued. Open new case for enforcement
 - Result will be that QCR and any findings address current policies and procedures and current staff performance

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. Audit Universe
 - Accurate universe of closed audit cases is dependent on MMS staff following new criteria and procedures.

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. CPEs
 - CPE Criteria:
 - 80 credits each 2-year reportable period
 - 24 credits in subjects directly related to government auditing, government environment or specific MMS environment, and
 - at least 20 in each of the 2 years

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. CPEs
 - MMS emphasized CPEs since IG report
 - All staff in TCBA sample, except one, met CPE requirements
 - However, our initial review also found several instances of inadequate support that MMS researched and later provided

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. CPEs
 - Adequate support are certificates and/or sign-in sheets
 - Inadequate support examples include: request to take a course, notification of class, or only a typed roster
 - Current use of 2-month grace period likely going away with GAO guidance update

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. CPEs
 - MMS is establishing standard and consistent criteria for documenting CPE across both Onshore and Offshore offices
 - Meeting CPEs is an individual responsibility as well as MMS'

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MMS QCR Debrief

- ❖ What TCBA reported / MMS response – Management Letter. Audit products
 - (b)(2)high (b)(5)
 - MMS October 30, 2003 established policies and procedures to address this issue

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MMS QCR Debrief

- ❖ What TCBA suggested – Management Letter. New Compliance Strategy
 - (b)(2)high (b) (5)

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MMS QCR Debrief

- ❖ What TCBA suggested – Management Letter.
Using non-audit staff on audits
 - Non GS-511 staff can work on audits as long as they meet the GAS/CPE standards
 - Generalist non-audit staff would need to meet the 80 CPE requirements (or pro-rata, if less than 2 years)
 - External or internal "specialists" would need to meet their own licensing requirements to be in compliance with GAS

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MMS QCR Debrief

- ❖ Additional MMS Plans
- ❖ Summary
- ❖ Questions and Discussion

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October 19, 2005

Ms. Lucy Querques Denett
Associate Director
Minerals Management Service
Department of Interior

We have reviewed the system of quality control for the Federal Audit Function of the Minerals Management Service (MMS) in effect for the 2-year period ending December 31, 2004. A system of quality control encompasses the organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of MMS. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and MMS's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for MMS. In addition, we tested compliance with MMS's quality control policies and procedures to the extent we considered appropriate. These tests included the application of MMS's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the Federal Audit Function of MMS in effect for the 2-year period ending December 31, 2004, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the 2-year period ending December 31, 2004, to provide MMS with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

Our scope and methodology appears as Exhibit A.

Thompson, Cobb, Bazilio & Associates, P.C.
Thompson, Cobb, Bazilio & Associates, PC

Exhibit A

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with MMS's system of quality control to the extent we considered appropriate. These tests included a review of 16 of 58 audit cases started during fiscal year 2003 and 2004 and closed by December 31, 2004. In addition, we reviewed a sample of non-audit cases closed during this period and a sample of open cases to verify that the closed-case audit universe was valid. We also reviewed the internal quality control reviews performed by MMS.

MMS Offices Reviewed

We conducted our review at MMS's Lakewood, CO; Tulsa, OK; Oklahoma City, OK; and Houston, TX offices.

Closed Audit Cases Reviewed

<u>Case Number</u>	<u>Sub-Case Number</u>	<u>Date Closed</u>	<u>Company Audited</u>
0320002	001	9/15/03	(b)(2)high (b)(5)
0380002	014	11/3/03	
0380002	012	11/6/03	
0320002	002	8/27/04	
0400002	001	9/10/04	
0320019	001	10/20/04	
0300014	001	10/20/04	
0490010	001	11/29/04	
0380002	003	11/30/04	
0490046	001	11/30/04	
0380002	001	12/1/04	
0490052	001	12/17/04	
0300005	001	12/20/04	
0490047	001	12/21/04	
0480003	001	12/29/04	
0490016	001	12/30/04	