

*Paul H. Koehler*

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January 29, 2009

Mr. Steven van Beverhoudt, Inspector General  
Office of the U.S. Virgin Islands Inspector General  
2315 Kronprindens Gade No. 75  
St. Thomas, USVI 00802-6468

Dear Mr. van Beverhoudt:

I have reviewed the internal quality control system for the auditing practices of The Office of the U.S. Virgin Islands Inspector General (VIIG) in effect for the year ended September 30, 2008. My review was conducted in conformity with standards for external peer reviews established by the 2003 Revision to Government Auditing Standards, issued by the Comptroller General of the United States. I tested compliance with VIIG's quality control policies and procedures to the extent considered appropriate. These tests included a review of selected Government Auditing Standards auditing engagements performed in accordance with the standards for performance audits contained therein.

In performing my review, I have given consideration to the quality control standards contained in Government Auditing Standards. Those standards indicate that an audit organization's internal quality control system depends on a number of factors, such as the audit organization's size, organizational structure, the nature of its work, and appropriate cost-benefit considerations. They state that an audit organization's internal quality control system encompasses the audit organization's structure and the policies adopted and procedures established to provide the organization with reasonable assurance of complying with applicable standards governing audits and attestation engagements.

In my opinion, the internal quality control system for the auditing practices of VIIG in effect for the year ended September 30, 2008 met the objectives of quality control standards established by Government Auditing Standards and was being complied with during the year then ended to provide VIIG with reasonable assurance of conforming with professional standards in the conduct of that work.

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Dear Mr. van Beverhoudt:

I have reviewed the internal quality control system for the auditing practices of The Office of the U.S. Virgin Islands Inspector General (VIIG) in effect for the year ended September 30, 2008 and have issued my report thereon dated January 29, 2009. This letter should be read in conjunction with that report.

My review was for the purpose of reporting upon VIIG's internal quality control system and its compliance with that system. My review was conducted in conformity with standards established by the 2003 Revision to Government Auditing Standards; however, my review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because my review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any internal quality control system. 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 an internal quality control system to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. As a result of my review, I have the following comments:

**Finding** – VIIG's quality control procedures are documented in an Auditor's Manual. However, this manual has not been updated since it was written in 1991, resulting in a lack of current documentation of compliance with certain generally accepted government auditing standards (GAS). Nevertheless, because a limited number of audit reports were issued during the year ended September 30, 2008, I was able to satisfy myself that VIIG appropriately considered adequate audit policies and procedures in performing its audits. This finding was also included in prior review comment letters.

**Recommendation** – VIIG should obtain additional funding to enable an immediate and thorough revision to its Auditor's Manual in order to update and document its policies and procedures for the current staffing level to help ensure all audits are performed at a consistently high level of quality in accordance with GAS.

**Finding** – GAS requires audit team members to collectively possess the technical knowledge, skills and experience necessary to be competent before beginning work. The 2007 Revision to GAS was effective for performance audits beginning on or after January 1, 2008, and the VIIG started five audits in fiscal 2008, however:

- The Auditor’s Manual through September 30, 2008 still contained no requirement that auditors read and keep current on GAS
- Copies of the 2007 GAS weren’t provided to auditors until late in calendar year 2008
- Formal 2007 GAS training wasn’t provided until November 5 & 6, 2008, due to lack of local funding

**Recommendation** – VIIG should obtain additional local funding to facilitate timely high quality GAS training as well as timely distribution to audit staff of future GAS revisions and related guidance. VIIG should add a requirement to the Auditor’s Manual for all auditors to read and remain current on GAS.

**Finding** – The 2003 Revision of GAS 7.17 and 7.22 requires auditors to design and perform procedures to provide reasonable assurance of detecting violations of laws, regulations, contracts and grants, as well as fraud, when such risks are identified, that are significant to audit objectives, based upon risk assessments performed and documented. While risk assessments were performed and documented, there was no indication in the audit workpapers that the audit procedures performed were responsive to those assessments.

**Recommendation** – VIIG should provide clear documentation in the audit workpapers of performance of audit procedures which are based upon and responsive to risk assessments regarding significant noncompliance and fraud.

**Finding** – GAS requires the statement in the auditor’s report citing compliance with GAS be qualified when an applicable standard is not followed. In a joint audit conducted with the U.S. Department of Interior, the report that was issued, signed by both Interior and VIIG, failed to contain appropriate qualifying language regarding the inability to obtain sufficient competent audit evidence to achieve the audit objective.

**Recommendation** – VIIG should only sign audit reports containing appropriate qualifying language in the event of significant audit scope limitations.

**Finding** – Both audit reports reviewed included references to tests of details performed and related findings where it either wasn’t clear if a sample had been performed or, if one had been performed, what were the relevant sample design criteria, and whether or not the sample results could be projected to the related population.

**Recommendation** – VIIG should take steps to ensure that all audit reports include, where applicable, all audit sampling related disclosures required by GAS to help ensure report users understand the significance of reported findings and the importance of taking actions recommended by the auditors.

**Finding** – GAS requires an audit organization’s quality control system to include procedures for monitoring its design and application. As of September 30, 2008, the VIIG Quality Control Manual (Auditor’s Manual), written in 1991, still contained no procedures for monitoring compliance with either GAS or the manual itself. This finding also appeared in the prior peer review comment letter.

**Recommendation** – VIIG should amend its Auditor’s Manual to include procedures for monitoring the design and application of its quality control procedures, and summarize the results of these monitoring procedures at least annually. Monitoring of VIIG’s work will help ensure high quality audit services are provided to the citizens of the U.S. Virgin Islands.

The foregoing matters were considered in determining my opinion set forth in my report dated January 29, 2009 and this letter does not change that report.

*Paul H. Koehler, CPA*