Paul H. Koehler

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April 10, 2015

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 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, 2014. My review was conducted in conformity with standards for external peer reviews established by the 2011 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 a selected Government Auditing Standards auditing engagement 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 the nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit organization's size, number of offices and geographic dispersion, the knowledge and experience of its personnel, the nature and complexity of its audit work, and cost-benefit considerations. They state that an audit organization's quality control system encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.

In my opinion, the quality control system for the auditing practices of VIIG in effect for the year ended September 30, 2014 was adequately designed and complied with during the year then ended to provide VIIG with reasonable assurance of conforming with applicable professional standards, in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. VIIG has received a peer review rating of *pass with deficiencies*.

As part of this review, I have also issued a separate letter of comments dated April 10, 2015 for your consideration.

Paul H Koehler, CPA

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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, 2014 and have issued my report thereon dated April 10, 2015. 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 2011 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 – The 2011 GAS para. 7.30 presumptively requires specific wording be used in the audit report to indicate the audit was performed in accordance with GAGAS. This wording is also included in VIIG Policy Memo No. 10 dated February 10, 2012. However, several key words and phrases were omitted from the audit report issued January 10, 2015 that was the subject of this peer review.

Recommendation – VIIG should use the prescribed GAS wording and follow its own policy memo regarding such wording. Re-emphasize the importance of following applicable GAS requirements and policy memos to all auditors and reviewers to help ensure GAGAS compliance.

Finding – The 2011 GAS para. 6.08 and 6.10 define the term audit objectives and indicate that methodologies and audit procedures are to address the audit objectives. Although the reviewed engagement's audit report cited two objectives, the report identified methodologies and recommendations that addressed other non-cited objectives.

Recommendation – VIIG audit teams should carefully and completely document and report the audit objectives that drive the audit methodologies and procedures, revising them and expanding them as needed, especially for lengthy, multi-year audit engagements like the one that was the subject of this peer review. Doing so will help ensure the efficiency and effectiveness of VIIG audits, and enable users of VIIG audit reports to better understand the objectives and results of these audits.

Finding – GAS requires an audit organization's quality control system to include procedures for monitoring its design and operation, with analysis and summarization of monitoring procedure results at least annually. As of September 30, 2014, the VIIG Quality Control Manual (Auditor's Manual), written in 1991, contained procedures for monitoring compliance with GAS under Auditor's Manual Policy Memorandum No. 8 dated February 9, 2009. However, no such monitoring procedures had been performed through September 30, 2014. It should be noted that as of April 10, 2015 a new VIIG Auditor's Manual is being finalized. The omission of monitoring procedures was also noted in the last three peer review comment letters.

Recommendation – VIIG should comply with its Auditor's Manual to perform (or contract for) procedures for monitoring the design and operation of its quality control procedures, and summarize the results of these monitoring procedures at least annually in accordance with 2011 GAS 3.95. 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 April 10, 2015 and this letter does not change that report. These matters were discussed with responsible VIIG officials, and they agreed with all findings.

Paul H. Koehler, CPA