



# Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

July 16, 2013

## MEMORANDUM

**TO:** John F. Sopko  
Special Inspector General for Afghanistan Reconstruction

**FROM:** Rebecca Anne Batts   
Inspector General

**SUBJECT:** PBGC-OIG's Independence

I am writing to object to your office's continued mischaracterization of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) policy and practice with regard to the standard of independence, as set forth in Government Auditing Standards (GAGAS). As I have previously advised, we strongly disagree with the majority of the observations in the peer review report. Please see our response to the peer review report and our transmittal letter to the PBGC Board for specific details of many of the errors and omissions contained in your office's report. That document is available on our website, at [http://oig.pbgc.gov/pdfs/PBGC\\_Peer\\_Review\\_Report\\_2013.pdf](http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf).

One of our most important Congressional stakeholders has requested that we issue a clarification regarding SIGAR's misinterpretation of my comments about the continued relevance of independence in auditing. This letter will serve as that clarification. Please note that, in my May 2, 2013 response to SIGAR's draft report, I provided comments addressing the myriad errors and mischaracterizations in your draft report. However, the final peer review report issued by your office contained significant additional material (not previously included) that is also incorrect and for which my office was not afforded the opportunity of response. Thus, we have not previously provided comments relating to your office's erroneous assertions about PBGC OIG's attitude toward the independence standard.

In the peer review report you issued on May 15, 2013, you referred to "PBGC-OIG's comment that GAGAS independence standards do not require reviewers of audit reports to be independent" and criticized my office for "wrongly interpreting that the independence standard is no longer relevant." SIGAR's discussion of this issue is both incorrect and misleading; SIGAR mischaracterized and exaggerated a statement intended to relate only to a footnote in an obsolete version of GAGAS and not to the overall concept of independence.

To be clear, PBGC OIG affirmatively confirms the continuing relevance and importance of the independence standard. We affirm that GAGAS independence standards do require reviewers of audit reports to be independent. Furthermore, we provided SIGAR with clear documentation that this is our policy and we are baffled by SIGAR's continued insistence to the contrary.

The apparent misunderstanding began when SIGAR issued a draft report that used the word "standard" in referring to individual provisions or elements of GAGAS. The Independence standard has several subparts, including a subpart on personal impairments; and these subparts are further subdivided in numbered sections (e.g., §3.07). In some cases, guidance is provided in footnotes. With regard to personal impairments, in the 2007 version of GAGAS, the Independence standard at §3.07 stated, in part: "Auditors participating on an audit assignment must be free from personal impairments to independence." A footnote to this sentence further explained: "This includes those who review the work or the report ..." Auditors often incorrectly refer to individual elements of the standards as "standards." In this instance, both SIGAR and PBGC OIG made that error in discussing the contents of the footnote.

Thus, an early draft of SIGAR's report stated "Based on our review of PBGC-OIG policies and procedures in the AM [Audit Manual], we identified the following **standards** [emphasis added] that were not incorporated or fully addressed, ... including a statement that independence includes those who reviewed the report §3.07 ..." My office responded to this comment (and others) in a tabbed binder with explanations keyed to SIGAR's preliminary observations, providing the following explanation:

Our **2007 Audit Manual Chapter 3-30** requires staff involved in performing or supervising audits to be free from personal, external, and organizational impairments. This Chapter refers staff to GAGAS section 3.07 for a list of possible or potential personal impairments.

The **2007 Audit Manual Chapter 3-40** states 'AUD staff (auditors, specialist, contractors) must document their freedom, both in fact and appearance from personal impairments to independence by completing a Personal Impairment Certification form.'

Our general practice is to include a certificate for those who review the report, including the IG, DIG [Deputy Inspector General] and AIGA [Assistant Inspector General for Audit]. Further, the 2007 GAGAS footnote to §3.07 defines 'participating on an audit assignment' as including 'those who review' and 'all others within the audit organization who can directly influence the outcome.' We note that the 2011 version of the Government Auditing Standards did not include this requirement.

Your office did not accept our explanation and issued a discussion draft report with the same language – "we identified the following **standards** [emphasis added] that were not

incorporated or fully addressed ... including a statement that independence includes those who reviewed the report §3.07.”

In responding to the SIGAR draft report, unfortunately, I mirrored the imprecise language that SIGAR had used and incorrectly referred to the footnote requirement as a “standard.” The full text of my comment was:

The peer reviewers also take exception to PBGC OIG’s treatment of a standard that is no longer relevant and was dropped from the most current version of Government Auditing Standards. The peer reviewer’s second bullet addresses the need for a statement that ‘independence’ includes those who reviewed the report. Nevertheless, both our 2007 and 2012 audit manuals include, at Chapter 3-30, the requirement that staff involved in performing or supervising audits be free of personal, external, and organizational impairments. This guidance includes a specific reference to GAGAS Section 3.07, the standard that the peer reviewers incorrectly concluded had not been addressed. No further action is needed in relation to this issue.

The language of my response was imprecise. I should have said “The peer reviewers also take exception to PBGC OIG’s treatment of a **definition** that is no longer relevant and was dropped from the most current version of Government Auditing Standards.” However, based on the documentation that my office had already provided with respect to this footnote provision and our precise reference to § 3.07, it is unclear to us how SIGAR could have misinterpreted our meaning and conclude we asserted that the independence standard is “no longer relevant.”

Beyond these statements in the peer review report, your office continues to mischaracterize my office and its commitment to independence. In a letter dated June 21, 2013 and posted on the internet, your Deputy Inspector General repeated the mischaracterization as noted above and went on to say that “PBGC OIG wrongly interpreted GAGAS, since the Government Accountability Office’s revision expanded the definition of independence to include activities that are not expressly prohibited and applies not only to members of the audit team but to those in principal positions of the audit organization.” If SIGAR means to imply that PBGC OIG’s policies are somehow incomplete with respect to GAO’s expanded definition of independence, that issue should have been reported in the recent peer review. To the extent that this unfounded statement is related to the previously cited miscommunication about an obsolete footnote, it appears that your office is taking a single poorly worded sentence out of context and attempting to create a false perception about my office’s commitment to independence.

As noted in our response to the peer review, despite multiple meetings scheduled to discuss the review findings, the peer reviewers generally did not discuss the specific details of their observations or the reasons they reached their conclusions with my audit staff. Therefore, we have generally been unable to determine many of SIGAR’s specific concerns.

Additionally, to foster understanding of the SIGAR findings, we have formally requested access to the workpapers supporting SIGAR's review. Although your Deputy Inspector General advised us on June 21 that supporting documentation would be made available to us "on request," SIGAR has yet to provide access as promised. I also understand that Jon Rymer, in his role as Chair of the Council of Inspectors General on Integrity and Efficiency (CIGIE) Audit Committee has requested that your office make supporting documentation available to us. To date, we have had no access to SIGAR's supporting workpapers, although we were advised, via email that we could make our request again, sometime after July 22. Given the significance of these issues for my office and for yours, I repeat my request for immediate access to whatever supporting documentation is available for the work SIGAR did on the peer review. As we have previously stated, we will be happy to come to your office and make copies, to minimize the impact on your staff.

I'd also like to call your attention to some additional information in your office's June 21 letter that could be misleading. Your Deputy expressed a concern that the peer review report had not yet been posted on my office's website, citing his professional opinion that timeliness required posting within 30 days of issuance. However, if you or your Deputy had reached out to me about this issue, I would have explained that there is no established timeframe for publication and that the report would be posted as soon as representatives of the PBGC Board had been briefed on its contents. I would have also explained that I had been in constant communication with the CIGIE Executive Director about the timeframe for posting and that no concerns had been raised. Finally, SIGAR's letter could leave the impression that my office did not respond to the anonymous complaint we received. That is incorrect. We did respond and would have shared our response to the anonymous complainant with you, as we did with CIGIE, had we known of your concerns.