



**Fiscal Year 2011**

**Agency Financial Report**



*Council of the*  
**INSPECTORS GENERAL**  
*on INTEGRITY and EFFICIENCY*

## **Chairperson's Message**

---

The Inspector General Reform Act of 2008 (IG Reform Act), brought 73 individual Inspectors General (IGs) and 6 integrity-related senior officials together as a community to form the Council of the Inspectors General on Integrity and Efficiency (CIGIE or Council). CIGIE's mandated mission is to address integrity, economy, and effectiveness issues that transcend individual Government agencies, and to increase the professionalism and effectiveness of the inspector general community. In 2011, the Council continued to make major strides towards accomplishing this mission.

In this Agency Financial Report (AFR), we discuss CIGIE's 2011 accomplishments in carrying out its mission and business plan goals, and in establishing the Council's infrastructure; provide the independent auditor's reports regarding CIGIE's financial statements as of September 30, 2011; and highlight the work of CIGIE's Executive Council, its seven standing committees, and CIGIE members on several cross-cutting issues relative to Federal departments, agencies, and Offices of Inspector General.

The financial audit was performed by Martin and Wall, A Division of Chortek & Gottschalk, LLP, Washington, DC. CIGIE is pleased Martin and Wall found that CIGIE's financial statements present fairly the financial position of CIGIE, and that there were no reportable instances of noncompliance with laws or regulations governing CIGIE's financial management systems. However, through the audit, Martin and Wall found three significant deficiencies in CIGIE's internal controls: 1) the recording of advances and prepayments, 2) revenue recognition, and 3) accrued expenses and accounts payable. The findings pertain to FY 2010 and FY 2011 financial management activities. CIGIE began its financial operations in FY 2010 and attributes these issues to the early stages of developing its operational and financial processes and procedures.

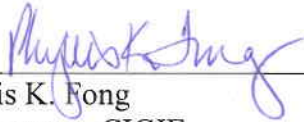
In light of the above findings, CIGIE has restated its FY 2010 financial statement. Presently, CIGIE is taking appropriate steps to develop and implement additional procedures to address these issues.

Martin and Wall's opinion letters and audited CIGIE financial statements and notes to the financial statements are included in this AFR.

Further information related to the Council's assurance as to the accuracy and reliability of the financial and performance data presented in this report may be found under the Management Statement of Assurance on page 11.

In 2011, the third full year of CIGIE operations, our work has been greatly assisted by the efforts of leaders in the IG community; CIGIE's colleagues in the Office of Management and Budget; Congress; the Government Accountability Office; other Federal agencies, and law enforcement and professional organizations; and private-sector supporters who share a dedication to helping improve Government programs by ensuring accountability, efficiency, and oversight.

In particular, we sincerely thank the more than 12,600 members of the inspector general community for the work they do every day.

  
\_\_\_\_\_  
Phyllis K. Fong  
Chairperson, CIGIE

11/15/11  
Date

---

**Table of Contents**

---

	<u>Page</u>
Management Discussion and Analysis .....	4
Management Statement of Assurance.....	11
Financial Section.....	13
Other Accompanying Information.....	27
Appendix.....	30
Independent Auditors Report.....	31



*Council of the*  
**INSPECTORS GENERAL**  
*on INTEGRITY and EFFICIENCY*

**Management Discussion and Analysis**  
**Fiscal Year 2011**

***The Council of the Inspectors General on Integrity and Efficiency's  
Mission and Organization***

**Mission:** The mission of the Council of the Inspectors General on Integrity and Efficiency (CIGIE or the Council) is to address integrity, economy, and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the Offices of Inspectors General.

**Organization:** The Council is made up of 73 individual Inspectors General (IGs) from both the Executive and Legislative branches and 6 integrity-related senior officials: the Deputy Director for Management (DDM), Office of Management and Budget (OMB); the Deputy Director, Office of Personnel Management; the Special Counsel, Office of the Special Counsel; the Assistant Director of the Criminal Investigative Division, Federal Bureau of Investigation (FBI); the Director, Office of Government Ethics; and the Controller of the Office of Federal Financial Management, OMB. The Honorable Jeffrey Zients, DDM, OMB, is the Executive Chairperson of the Council. The Council is led by the elected Chairperson, Phyllis K. Fong, IG, U.S. Department of Agriculture; the Vice Chairperson, Carl A. Clinefelter, IG, Farm Credit Administration; and the other members of the Executive Council (see the below table).

**Executive Council**

Phyllis K. Fong, Department of Agriculture	Chairperson
Carl A. Clinefelter, Farm Credit Administration	Vice Chairperson
Jon T. Rymer, Federal Deposit Insurance Corporation	Audit Committee Chair
Gordon S. Heddell, Department of Defense	Information Technology Committee Chair
Kathy A. Buller, Peace Corps	Inspection and Evaluation Committee Co-Chair
Daniel R. Levinson, Department of Health and Human Services	Inspection and Evaluation Committee Co-Chair
Carl W. Hoecker, U.S. Capitol Police	Investigations Committee Chair
Peggy E. Gustafson, Small Business Administration	Legislation Committee Chair
Mary L. Kendall, Department of the Interior (Acting IG)	Professional Development Committee Chair
Lynne A. McFarland, Federal Election Commission	At-Large Member
Gregory H. Friedman, Department of Energy	Past Vice Chair, President's Council on Integrity and Efficiency

## *Performance Goals, Objectives and Results*

In December 2010, the Council approved an annual business plan to guide its activities for fiscal year 2011, by establishing four major business goals and supporting objectives. These goals were: 1) contribute to improvements in program integrity, efficiency, and cost-effectiveness Governmentwide by providing cross-agency analyses of the Offices of Inspectors General (OIG) findings and recommendations in areas of vulnerability confronting multiple Government programs; 2) further increase the professionalism and effectiveness of the IG community workforce; 3) further advance the level of practice within the IG community workforce; and 4) complete the establishment of Council organization, staffing, infrastructure, and processes to enable the Council to effectively meet its vision, mission, and goals. The following information reflects CIGIE's accomplishments achieved during FY 2011 under each of these goals.

### **Goal 1: Contribute to improvements in program integrity, efficiency, and cost-effectiveness Governmentwide by providing cross-agency analyses of OIG findings and recommendations in areas of vulnerability confronting multiple Government programs.**

CIGIE commissioned four cross-cutting studies during FY 2011 as follows:

- Recommended Practices for OIG Hotlines – CIGIE created an interdisciplinary Working Group to conduct a study to identify effective practices for the OIG community's handling of Hotline operations and whistleblower protection to ensure effective management of whistleblower allegations. The Working Group developed this report from information obtained through subject matter expertise of Hotline operators from a representative group of OIGs, interviews with industry professionals, legal research, and a review of applicable documents. The report was issued October 2010.
- Compilation of Prior IG Reports on International Trade and Competitiveness – CIGIE created an interdisciplinary International Trade and Competitiveness (ITC) Working Group (ITC Working Group). The ITC Working Group compiled audits, studies, evaluations, inspections, and other reviews performed during the last 5 years in departmental/agency mission areas related to trade and competitiveness and identified areas of program inefficiency, duplication, and overlap. Its report, issued in May 2011, includes summaries of prior OIG work on trade and competitiveness and provides a succinct overview of a variety of identified issues that could adversely affect our Government's critical activities related to international trade. The majority of the ITC Working Group's submissions identified inefficiencies, lack of clear program goals and strategies, and poor coordination and communication among various agencies involved in trade and competitiveness. A few IGs addressed issues specifically related to duplication and overlap of Federal trade functions.
- Compendium for Disaster Preparedness Programs – Through a survey of Council members and a review of the Catalog of Federal Domestic Assistance, CIGIE developed an inventory of Federal programs that provide disaster preparedness assistance to individuals, States, localities, nonprofit organizations, and businesses. This compendium of disaster preparedness programs is to help ensure the readiness of the Nation to prevent,

respond to, and recover from threatened and actual disasters and emergencies. The report was issued June 2011.

- The Chief Financial Officers Act of 1990–20 Years Later -- Section 3(e) of the Improper Payments Elimination and Recovery Act of 2010 called for the Chief Financial Officers (CFO) Council and CIGIE to jointly examine the CFO Act of 1990. The purpose of the study was to present lessons learned since passage of the CFO Act and any legislative and regulatory compliance framework changes needed to Federal financial management. The results of the study are presented in a report issued in August 2011.

Additionally, CIGIE established an interdisciplinary working group to advise and coordinate activities on matters involving the effective use of suspension and debarment, and appointed an IG as the lead in coordinating OIG activities on matters involving the elimination of improper payments.

**Goal 2: Further increase the professionalism and effectiveness of the IG community workforce.**

In FY 2011, CIGIE took steps to staff the leadership for its training institute. Under the guidance of a newly hired Executive Director for CIGIE, the Council employed an Executive Director for the Training Institute; a Director for the Audit, Inspections and Evaluations Academy; and a Director for the Investigations Academy. Additionally, IG Council members provided eight long-term detailed staff to the Training Institute – five directly supporting the Investigations Academy, one directly supporting the Leadership and Mission Support Academy, and two supporting all of the academies within the Training Institute. This staff provides the necessary support to operate the Training Institute while still working towards its full establishment.

CIGIE continued to provide leadership and management courses that were well received by the OIG community. The courses were designed both to sharpen experienced managers' skills and to equip new and future leaders with the vital tools they need to become effective public administrators. Drawing from historical lessons learned as well as current technological advances, 12 leadership and management courses were attended by 240 OIG professionals from 20 OIGs.

In FY 2011, CIGIE also organized six 2-week introductory audit training courses, training over 170 new auditors from OIGs throughout the Government. These 2-week courses offered instruction on topics ranging from government accounting standards to writing skills. The courses provided both a unified training structure for the OIG community and a cost-effective means to prepare new staff for their professional responsibilities.

CIGIE is also providing training so that the IG investigator workforce acquires and strengthens its skill sets. To accomplish this, in FY 2011, the IG Criminal Investigator Academy delivered basic, refresher, and advanced training courses along with more specialized instruction, such as the Public Corruption Investigations Training Program. In total, the academy taught over 650 students representing nearly every Federal OIG, in addition to agents from State and local entities.

Additionally, in FY 2011, the Training Institute was responsible for coordinating training sessions for OIG legal personnel on the specialized legal framework within a statutory IG office and the unique challenges facing new lawyers working for those offices. Further, CIGIE is working towards providing specialized training to the OIG community's human resources personnel to assist them in performing self-assessments of their operations with the goal of increasing capabilities.

In the future, CIGIE plans to make training widely available and synchronized with the professional needs of its member organizations by creating a variety of courses including instructor led, web-based, and blended learning courses. CIGIE's goal is to create a gateway to responsive, high-quality, cost effective, state-of-the-art, specialized training that can satisfy the IG community's needs today and in the future.

**Goal 3: Further advance the level of practice within the IG community workforce.**

In FY 2011, CIGIE has been working towards updating its quality standards for the OIG community. Thus far, much progress has been accomplished in this area. The Inspections and Evaluations Quality Standards were updated and reissued in early Spring 2011; both the Audit and Investigations Quality Standards are on schedule to be updated and reissued by December 2011; the Quality Standards for Federal Offices of Inspector General are being updated and are scheduled to be reissued in FY 2012. Additionally, CIGIE's peer review program guides for both Audit and Investigation are being reviewed to ensure that they are current, relevant, and appropriately set out an evaluative plan to adequately assess OIG operations in these professional areas.

Further, CIGIE has established various working groups of specialists and practitioners within the OIG community to exchange information on effective practices in the areas of their specialty. Examples of these workgroups include: a hotline workgroup, a suspension and debarment workgroup, and an information technology workgroup. These workgroups will fundamentally assist in the sharing of information across the OIG community that will contribute to further advancing effective operations.

**Goal 4: Complete the establishment of Council organization, staffing, infrastructure and processes to enable the Council to effectively meet its vision, mission, and goals.**

In FY 2011, CIGIE made major strides toward implementing its organizational and staffing infrastructure. CIGIE transitioned from staff detailed to the office to hiring a full-time, permanent Executive Director. Additionally, CIGIE hired a Training Institute Executive Director, and other integral full-time staff. Along with the hiring of staff, CIGIE developed the necessary office policies and procedures for the appropriate management and administration of CIGIE personnel, operations, and funds.

During this same period, while progressing towards becoming fully operational, CIGIE continued to meet its statutory responsibilities, to include:



- Coordinating OIG activities Governmentwide to identify and produce cross-cutting studies that mitigate common vulnerabilities and increase economy, efficiency, and effectiveness (Goal 1);
- Increasing the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in establishing a well-trained and highly-skilled OIG workforce (Goal 2);
- Maintaining public and business websites for the benefit of the public, stakeholders, and the OIG community;
- Preparing and transmitting the *Annual Progress Report to the President*;
- Responding to inquiries from the public and stakeholders about CIGIE and OIG activities, including complaints and allegations against IGs;
- Administering peer review programs that assess OIG compliance with professional standards; and
- Recommending individuals to the appointing authority when IG vacancies occur.

***Analysis of CIGIE's Financial Statements and Stewardship Information***

CIGIE obtained its funding in FY 2011 from contributions of each of the IG members and a carryover of non-expended/non-obligated funds from FY 2010. In FY 2011, CIGIE implemented the FY 2010 established internal control and financial management systems to ensure accountability of these funds while continuing to build operations to support CIGIE and its mission. These funds are being used to: 1) continue creating the infrastructure necessary to fully support the activities of CIGIE; 2) providing educational and professional development programs to increase the professionalism and effectiveness of the IG community workforce; and 3) operating and managing CIGIE's website.

As of the close of FY 2011, CIGIE had obligated \$1,429,746 to continue building the necessary infrastructure to fully support these activities. Additionally, CIGIE had obligated \$1,622,548 to assist in providing the IG community with training in the areas of leadership, audit, inspections and evaluations, and investigations.

At the end of FY 2011, the gross obligations for CIGIE were \$3,052,294. Additionally, \$547,387 in unpaid obligations from FY 2010 were brought forward to FY 2011, of which \$13,495 were recovered. With these total obligations, CIGIE's gross outlays for FY 2011 amounted to \$3,204,776 (see Statement of Budgetary Resources on page 18). The table below summarizes CIGIE's budgetary resource outlays and obligations and identifies our initial projections for FY 2012.

**Summary of Budgetary Resources  
For the Year Ending September 30, 2011  
(Amounts may be off by a dollar due to rounding.)**

Funding:	
FY 2010 Carry Over Balance	\$ 6,929,082
Recoveries of Prior Year Obligations	\$ 13,495
Contributions Received	\$ 3,096,577
Total Budgetary Resources	\$10,039,154
Status of Budgetary Resources:	
Obligations Incurred	
Reimbursable	\$ 3,052,294
Unobligated Balances	
Apportioned	\$ 3,980,350
Unobligated Balances – not available	\$ 3,006,511
Total Status of Budgetary Resources	\$10,039,154

As mentioned earlier, in FY 2011, CIGIE was continuing to work towards building its infrastructure inclusive of the necessary start up assets and equipment and the acquiring of

needed human resources to appropriately support CIGIE and its mandates. These activities required substantial involvement of and coordination with various governmental entities. Thus, several planned obligations for FY 2011 were not incurred and have been deferred to FY 2012, such as the hiring of the full complement of permanent CIGIE staff, and limited start up equipment for staff operations.

### *Analysis of CIGIE's Systems, Controls, and Legal Compliance*

The Certified Public Accounting firm of Martin and Wall, A Division of Chortek & Gottschalk, LLP, has reviewed the FY 2011 financial records and internal controls of the Council and submitted an unqualified audit opinion. This audit found three significant deficiencies in CIGIE's internal controls relating to the recording of advances and prepayments, revenue recognition, and the recording of accruals and accounts payable. The result of the errors discovered through the audit's identified deficiencies were: 1) certain costs were fully expensed at the time of obligation rather than allocating those costs on a fiscal year basis; 2) the improper recording of CIGIE member contributions in the appropriate period leading to an understatement of revenues, financing sources, and accounts receivable in the prior reporting period and an overstatement in the current period; and 3) the improper recording of accruals in the prior reporting period resulting in an overstatement of expenses in the current period. The effect of these errors required the restatement of the FY 2010 financial statement (reference Note 12 of the FY 2011 financial statement).

The principal financial statements have been prepared to report the financial position and results of operations of CIGIE, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of CIGIE in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

## Management Statement of Assurance

CIGIE operated during Fiscal Year 2011 with five employees. CIGIE acknowledges that it is management's responsibility to establish and maintain adequate Internal Controls over Financial Reporting. Although, CIGIE had developed financial policies and procedures in FY 2010 to ensure internal controls were established to meet the objectives of OMB Circular A-123, *Management's Responsibility for Internal Control*, Martin and Wall found three significant deficiencies through its audit of the CIGIE financial statement. The deficiencies were with the recording of advances and prepayments, revenue recognition, and accrued expenses and accounts payable. The findings were discovered for the years FY 2010 and FY 2011.

Additionally, the auditors found two inconsistencies with CIGIE's FY 2010 Agency Financial Report and the FY 2010 auditor's report. Specifically, the auditor's report identified CIGIE's funds as earmarked, the AFR did not, and the auditor's report presented all obligations in the statement of budgetary resources as reimbursable, whereas the AFR reflected all obligations as direct. The Inspector General Reform Act of 2008 (Act) authorized CIGIE to establish a revolving fund, where amounts in the fund shall remain available to CIGIE without fiscal year limitation and are to be used to carry out the functions and duties of CIGIE. This authorization is somewhat unique with respect to the operations of an independent Federal entity and, therefore, was confusing in determining if funds were considered earmarked. However, due to the broad authorization of the Act for the use of these funds, these monies are not considered earmarked. Additionally, attributable to CIGIE's infancy, CIGIE initially considered its obligations as direct since, in most instances, reimbursable obligations are used for grants and projects, and CIGIE is neither; however, upon a better understanding of reimbursable obligations, CIGIE has determined that its obligations are reimbursable.

CIGIE attributes the above issues to its early stage in developing its financial operations in FY 2010. Thus, through these findings, CIGIE learned that it lacked a process to identify and record transactions where costs related to specific types of transactions transcended the fiscal year, and it lacked a robust process to verify revenues and financing sources that were recorded in the proper reporting period. Due to these findings, CIGIE has restated its FY 2010 financial statement and adjusted errors for FY 2011 financial reporting.

CIGIE is taking the necessary steps to develop and implement effective processes to address the above issues. This includes the development of written accounting policies and procedures to assist in ensuring that future transactions of these types are properly recorded. These policies and procedures will be developed and implemented during FY 2012. Thus, CIGIE can provide with reasonable assurance, except as noted above, that its accounting systems and internal controls comply with the provisions of OMB Circular A-123 and the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

CIGIE uses the financial services of the General Services Administration's Office of Chief Financial Services (GSA/OCFO). Based on the results of the evaluation of GSA/OCFO financial systems and controls documented in its Statements on Standards for Attestation Engagements 16 report, CIGIE can provide reasonable assurance that the internal controls over GSA/OCFO's financial reporting were operating effectively and no material weaknesses were found in the

design or operation of the internal control over financial reporting. Additionally, CIGIE can provide reasonable assurance that GSA/OCFO's financial management systems meet the objectives of FMFIA.

CIGIE is committed to diligently correcting the audit weaknesses found through its financial statement audit and will be implementing the recommendations presented by Martin and Wall. This AFR provides timely information for CIGIE's stakeholders and the public to better understand CIGIE's program and operations. As always, CIGIE is committed to continuing its efforts in bettering its internal controls and maintaining an unqualified audit opinion in future years.



Mark D. Jones  
Executive Director

---

## Financial Section

The CIGIE obtained its funding of \$7,444,967 in FY 2011 from contributions of each of the IG members and a carryover of non-expended/non-obligated funds from FY 2010. These monies are used to fulfill its mission of: 1) addressing integrity, economy, and effectiveness issues that transcend individual Government agencies; and 2) increasing the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the Offices of Inspectors General. Management's responsibility includes ensuring there is accountability as to how these monies are being used. In working towards accomplishing this task, CIGIE finalized financial control procedures to ensure efficient and effective financial operations. Further, CIGIE procured the services of GSA/OCFO to employ the full range of financial and accounting services for CIGIE.

CIGIE has engaged the services of independent external auditors to review our financial records and related information concerning the effectiveness of our internal controls and our compliance with OMB guidance and the laws and regulations that govern CIGIE. The Certified Public Accounting firm of Martin and Wall, A Division of Chortek & Gottschalk, LLP, has conducted the audit and provided an unqualified opinion with the finding of three significant deficiencies in CIGIE's internal controls. These findings relate to the recording of advances and prepayments, revenue recognition, and the recording of accruals and accounts payable. The auditors did not report any instances of non-compliance with laws and regulations, reporting of such being required under *Government Auditing Standards* and OMB directives.

CIGIE's goal in Fiscal Year 2012 is to develop plans to assess its internal controls and conduct an assessment to ensure the effectiveness and efficiency of such controls. This should result in improving our financial management and reporting systems, strengthening our internal controls, and fine-tuning our key performance indicators.

**Annual Financial Statements**

**COUNCIL OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY**

**BALANCE SHEET  
As Of September 30, 2011 & 2010**

		2011	2010
<b>Assets:</b>			
<b>Intragovernmental:</b>			
Fund Balance With Treasury	(Note 2)	\$ 7,247,730	\$ 7,284,525
Accounts Receivable	(Note 3)	120,541	191,944
Other - Advances & Prepayments	(Note 4)	77,895	
<b>Total Intragovernmental</b>		<u>7,446,166</u>	<u>7,476,469</u>
<b>With The Public:</b>			
General Property, Plant and Equipment	(Note 5)	187,560	
Other	(Note 4)	1,885	
<b>Total Assets</b>		<u>\$ 7,635,611</u>	<u>\$ 7,476,469</u>
<b>Liabilities:</b>	(Note 6)		
<b>Intragovernmental:</b>			
Accounts Payable		\$ 92,250	\$ 30,965
Other	(Note 7)	2,685	
<b>Total Intragovernmental</b>		<u>94,934</u>	<u>30,965</u>
<b>With The Public:</b>			
Accounts Payable		66,432	538
Other	(Note 7)	145,614	
<b>Total Liabilities</b>		<u>306,980</u>	<u>31,502</u>
<b>Net Position:</b>			
Cumulative Results of Operations - Other Funds		7,328,631	7,444,967
<b>Total Net Position</b>		<u>7,328,631</u>	<u>7,444,967</u>
<b>Total Liabilities and Net Position</b>		<u>\$ 7,635,611</u>	<u>\$ 7,476,469</u>

\*Amounts may be off by a dollar due to rounding.

COUNCIL OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY

STATEMENT OF NET COST  
For The Years Ended September 30, 2011 & 2010

	2011	2010
Program Costs:		
Program A:		
Gross Costs	(Note 8) \$ 3,232,521	\$ 916,127
Net Program Costs	\$ 3,232,521	\$ 916,127
Net Cost of Operations	\$ 3,232,521	\$ 916,127

\*Amounts may be off by a dollar due to rounding.



COUNCIL OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY

STATEMENT OF CHANGES IN NET POSITION  
For The Years Ended September 30, 2011 & 2010

	2011			Consolidated Total
	Earmarked Funds	All Other Funds	Eliminations	
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$	\$ 7,444,967	\$	\$ 7,444,967
<b>Budgetary Financing Sources:</b>				
Transfers-In/Out Without Reimbursement		3,096,577		3,096,577
<b>Other Financing Resources (Non-Exchange):</b>				
Imputed Financing		19,608		19,608
Total Financing Sources		3,116,185		3,116,185
Net Cost of Operations (+/-)		3,232,521		3,232,521
Net Change		(116,336)		(116,336)
<b>Cumulative Results of Operations</b>	<b>\$</b>	<b>\$ 7,328,631</b>	<b>\$</b>	<b>\$ 7,328,631</b>
<b>Net Position</b>	<b>\$</b>	<b>\$ 7,328,631</b>	<b>\$</b>	<b>\$ 7,328,631</b>

\*Amounts may be off by a dollar due to rounding.

COUNCIL OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY

STATEMENT OF CHANGES IN NET POSITION  
For The Years Ended September 30, 2011 & 2010

	2010			Consolidated Total
	Earmarked Funds	All Other Funds	Eliminations	
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$	\$ 5,643,516	\$	\$ 5,643,516
<b>Budgetary Financing Sources:</b>				
Transfers-In/Out Without Reimbursement		2,717,578		2,717,578
Total Financing Sources		2,717,578		2,717,578
Net Cost of Operations (+/-)		916,127		916,127
Net Change		1,801,451		1,801,451
<b>Cumulative Results of Operations</b>	<b>\$</b>	<b>\$ 7,444,967</b>	<b>\$</b>	<b>\$ 7,444,967</b>
<b>Net Position</b>	<b>\$</b>	<b>\$ 7,444,967</b>	<b>\$</b>	<b>\$ 7,444,967</b>

\*Amounts may be off by a dollar due to rounding.

COUNCIL OF THE INSPECTORS GENERAL  
ON INTEGRITY AND EFFICIENCY

STATEMENT OF BUDGETARY RESOURCES  
For The Years Ended September 30, 2011 & 2010

	2011	2011	2010	2010
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
<b>Budgetary Resources:</b>				
<b>Unobligated Balance:</b>				
Beginning of Period	\$ 6,929,082	\$	\$ 5,541,401	\$
Recoveries of Prior Year Obligations	13,495			
<b>Budget Authority:</b>				
Expenditure Transfers from Trust Funds	3,096,577		2,819,693	
<b>Total Budgetary Resources</b>	<u>\$ 10,039,154</u>	<u>\$</u>	<u>\$ 8,361,094</u>	<u>\$</u>
<b>Status of Budgetary Resources:</b>				
<b>Obligations Incurred</b>				
Reimbursable (Note 9)	\$ 3,052,294	\$	\$ 1,432,012	\$
<b>Unobligated Balances</b>				
Apportioned	3,980,350		4,109,390	
Unobligated Balances - Not Available	3,006,511		2,819,693	
<b>Total Status of Budgetary Resources</b>	<u>\$ 10,039,154</u>	<u>\$</u>	<u>\$ 8,361,094</u>	<u>\$</u>
<b>Change in Obligated Balances:</b>				
<b>Obligated Balance, Net</b>				
Unpaid Obligations, Brought Forward, October 1	\$ 547,387	\$	\$	\$
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	(191,944)		(22,958)	
Total, Unpaid Obligated Balance, Brought Forward, Net	<u>\$ 355,443</u>	<u>\$</u>	<u>\$ (22,958)</u>	<u>\$</u>
Obligations Incurred	3,052,294		1,432,012	
Gross Outlays (-)	(3,204,776)		(884,625)	
Recoveries of Prior-Year Unpaid Obligations, Actual (-)	(13,495)			
Change in Uncollected Customer Payments from Federal Sources	71,403		(168,986)	
<b>Obligated Balance, Net, End of Period:</b>				
Unpaid Obligations (+) (Note 10)	381,410		547,387	
Uncollected Customer Payments from Federal Sources (-)	(120,541)		(191,944)	
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 260,869</u>	<u>\$</u>	<u>\$ 355,443</u>	<u>\$</u>
<b>Net Outlays:</b>				
Gross Outlays (+)	3,204,776		884,625	
Offsetting Collections (-)	(3,167,980)		(2,650,707)	
<b>Net Outlays</b>	<u>\$ 36,796</u>	<u>\$</u>	<u>\$ (1,766,082)</u>	<u>\$</u>

\*Amounts may be off by a dollar due to rounding.

---

**COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY  
REVOLVING FUND  
Notes to Financial Statements  
September 30, 2011 and 2010**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) was statutorily established as an independent entity within the executive branch by the "The Inspector General Reform Act of 2008," P.L. 110-409 to 1) address integrity, economy, and effectiveness issues that transcend individual Government agencies, and 2) increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the offices of the Inspectors General.

**Basis of Presentation & Accounting**

These financial statements have been prepared from the accounting records of the CIGIE in accordance with Generally Accepted Accounting Principles (GAAP), and the form and content for entity financial statements specified by the office of Management and Budget (OMB) in OMB Circular A - 136. GAAP for Federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

OMB Circular A – 136 requires agencies to prepare financial statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The Balance Sheet presents, as of September 30, 2011, amounts of future economic benefits owned or managed by CIGIE (assets), amounts owed by CIGIE (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the program, both direct and indirect costs of the output, and the costs of identifiable supporting services provided by other segments within CIGIE and other reporting entities. The Statement of Budgetary Resources reports an agency's budgetary activity.

**Basis of Accounting**

Transactions are recorded on the accrual accounting basis in accordance with OMB Circular A - 136. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and

liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Use of Estimates**

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenues and Other Financing Sources**

CIGIE operates as a no-year fund. In FY 2011, budgetary resources for CIGIE included multiple expenditure transfers in from federal Offices of Inspectors General who voluntarily sign agreements to fund the Council.

**NOTE 2 – FUND BALANCE WITH TREASURY**

All of CIGIE’s fund balance with Treasury is coming from transfers in during the period. No trust or other fund types are used to fund CIGIE’s activities. CIGIE operates as a no-year fund, where the fund balance of the previous year is carried forward to the next year.

A. Fund Balance with Treasury	<u>2011</u>	<u>2010</u>
Revolving Fund	\$7,247,730	\$7,284,525
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	3,980,350	4,109,390
b) Unavailable	3,006,511	2,819,693
c) Unavailable - Accounts Receivable	(120,541)	(191,944)
2) Obligated Balance not yet Disbursed	381,410	547,387
Total	<u>\$7,247,730</u>	<u>\$7,284,525 *</u>

\*Rounding

**NOTE 3 – ACCOUNTS RECEIVABLE, NET**

All Accounts Receivable are intragovernmental and represent accounts receivable from federal Inspectors General for assessments to fund the Council per agreement.

	<u>2011</u>	<u>2010</u>
Accounts Receivable - Federal	\$120,541	\$191,944

#### NOTE 4 – OTHER ASSETS

CIGIE has obligations that involve the advancement of funds for services to be provided in the future with HHS-OIG, CCEX, and an employee in fiscal year 2011.

	<u>2011</u>	<u>2010</u>
Intragovernmental - Other Assets	\$ 77,895	\$
With The Public - Other Assets	<u>1,885</u>	
Total Assets - Other	<u>\$ 79,780</u>	<u>\$</u>

#### NOTE 5 – GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2011, CIGIE shows Leasehold Improvements with a total cost of \$214,154 and a net book value of \$187,560. The Accumulated Depreciation to date shows a balance of \$26,593. The depreciation calculation method used is Straight Line with a useful life matching the remaining time on the lease contract or seven-years, whichever is less. A \$5,000 threshold is used to determine whether Leasehold Improvements are capitalized. CIGIE did not have any equipment as of September 30, 2010.

\*Rounding

<u>2011</u>	<u>Leasehold</u>	<u>Total</u>
Cost	214,154	\$214,154
Accum. Depr.	<u>(26,593)</u>	<u>(\$26,593)</u>
Net Book Value	<u>\$187,560 *</u>	<u>\$187,560 *</u>

\*Rounding

#### NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities of CIGIE are classified as liabilities covered or not covered by budgetary resources. As of September 30, 2011, CIGIE showed liabilities covered by budgetary resources of \$174,894 and liabilities not covered by budgetary resources of \$132,087. As of September 30, 2010, CIGIE showed liabilities covered by budgetary resources of \$31,502.

As of September 30, 2011, liabilities covered by budgetary resources is composed of Accounts Payable \$158,682, Accrued Funded Payroll and Leave \$12,893, and Employer Contributions and Payroll Taxes Payable \$3,318. As of September 30, 2010, liabilities covered by budgetary resources is composed of Accounts Payable \$31,502.

	<u>2011</u>	<u>2010</u>
With the Public		
Other (Unfunded leave liability)	132,087	
Total liabilities not covered by budgetary resources	<u>132,087</u>	
Total liabilities covered by budgetary resources	174,894 *	31,502
Total Liabilities	<u>\$306,980 *</u>	<u>\$31,502</u>

\*Rounding

#### NOTE 7 – OTHER LIABILITIES

As of September 30, 2011, other liabilities with the public consist of non-current liabilities of Unfunded Leave in the amount of \$132,087 and current liabilities of Accrued Funded Payroll and Leave of \$12,893, and employer contributions and payroll taxes payable – TSP of \$634.

Other Intragovernmental liabilities consist of employer contributions and payroll taxes payable \$2,685. As of September 30, 2011, there were no other liabilities to report.

	<u>With the Public</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2011	Other Liabilities	\$132,087	\$13,527	\$145,614
2010	Other Liabilities	\$0	\$0	\$0

	<u>Intragovernmental</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
2011	Other Liabilities	\$0	\$2,685	\$2,685
2010	Other Liabilities	\$0	\$0	\$0

#### NOTE 8 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs are goods/services purchased from a federal entity. All other costs are associated with non-federal sources.

	<u>Total</u>	<u>Total</u>
	2011	2010
Program A		
Federal - Program A costs	\$ 1,505,736	\$ 170,465
Non-Federal - Program A costs	<u>1,726,785</u>	<u>745,662</u>
Total Program A Net Costs	<u>3,232,521</u>	<u>916,127</u>

\*Rounding

**NOTE 9 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Apportionment is a plan, approved by the U.S. Office of Management and Budget (OMB), to spend resources. Resources are apportioned by *Treasury Appropriation Fund Symbol (TAFS)*. The apportionment identifies amounts available for obligation and expenditure. It specifies and limits the obligations that may be incurred and expenditures made (or makes other limitations, as appropriate) for specified time periods, programs, activities, projects, objects, or any combination thereof. An apportioned amount may be further subdivided by an agency into allotments, suballotments, and allocations. OMB Circular A-11 defines apportionment categories as follows:

- *Category A* apportionments distribute budgetary resources by fiscal quarters.
- *Category B* apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.
- *Category C* apportionments may be used in multi-year and no-year TAFS to apportion funds into future fiscal years.
- *Exempt* – Exempt from apportionment (see OMB Circular A-11, paragraph 120.8 for details).

All obligations for CIGIE in fiscal year 2011 and fiscal year 2010 are category B, which is the amount of reimbursable obligations incurred against amounts apportioned under category B on the latest SF 132.

	<u>2011</u>	<u>2010</u>
Reimbursable Category B	\$3,052,294	\$1,432,012

**NOTE 10 – UNDELIVERED ORDERS AT THE END OF THE PERIOD**

\$381,410 was the amount of CIGIE’s budgetary resources obligated for undelivered orders as of September 30, 2011. \$547,387 was the amount of CIGIE’s budgetary resources obligated for undelivered orders as of September 30, 2010.

	<u>Undelivered Orders</u>	<u>Delivered Orders, Obligations Unpaid</u>	<u>Unpaid Obligated Balance Net</u>
2011	206,516	174,894	\$381,410
2010	515,885	31,502	\$547,387



**NOTE 11 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)**

	2011	2010
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 3,052,294	\$ 1,432,012
Less: Spending Authority from Offsetting Collections and Recoveries	<u>3,110,072</u>	<u>2,819,693</u>
Obligations Net of Offsetting Collections and Recoveries	<u>(57,778)</u>	<u>(1,387,681)</u>
Net Obligations	<u>(57,778)</u>	<u>(1,387,681)</u>
Other Resources		
Imputed Financing from Costs Absorbed by Others	<u>19,608</u>	<u>                    </u>
<i>Net Other Resources Used to Finance Activities</i>	<u>19,608</u>	<u>                    </u>
 <i>Total Resources Used to Finance Activities</i>	 <u>(38,170)</u>	 <u>(1,387,681)</u>
 <i>Resources Used to Finance Items not Part of the Net Cost of Operations</i>		
Change in Budgetary Resources Obligated for Goods		
Services and Benefits Ordered But Not Yet Provided	(229,588)	515,885
Resources that Finance the Acquisition of Assets	214,154	(102,115)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>(3,096,577)</u>	<u>(2,717,578)</u>
<i>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</i>	<u>(3,112,011)</u>	<u>(2,303,808)</u>
 <i>Total Resources Used to Finance the Net Cost of Operations</i>	 3,073,841	 916,127
 <i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>		
<i>Components Requiring or Generating Resources in Future Periods:</i>		
Increase in Annual Leave Liability	<u>132,087</u>	<u>                    </u>
<i>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</i>	132,087	<u>                    </u>
 <i>Components Not Requiring or Generating Resources:</i>		
Depreciation and Amortization	<u>26,593</u>	<u>                    </u>
<i>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</i>	<u>158,680</u>	<u>                    </u>
<i>Net Cost of Operations</i>	<u>3,232,521</u>	<u>916,127</u>

\*Amounts may be off by a dollar due to rounding.

**NOTE 11 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING) (CONTINUED)**

Liabilities not covered by budgetary resources total \$132,087 and the change in components requiring or generating resources in future period's shows \$132,087. The \$132,087 is the net increase of future funded expenses for leave between transfers in of the no-year fund 2011 and the no-year fund 2010. Accrued funded payroll liability is covered by budgetary resources and is included in the net cost of operations. Whereas, the unfunded leave liability includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

	<u>2011</u>	<u>2010</u>
Liabilities not covered by budgetary resources	\$ 132,087	
Change in components requiring/generating resources	\$ 132,087	

**NOTE 12 – RESTATEMENT**

CIGIE's fiscal year 2010 financial statement has been restated to include the effects for correction of errors due to a mistake in application of accounting principles related to recording advances and prepayments, and the recognition of revenue in the proper reporting period. CIGIE lacked a process to identify and record transactions where costs related to specific types of transactions transcended the fiscal year. Additionally, CIGIE lacked a robust process to verify revenues and financing sources that were recorded in the proper reporting period. Specifically, these errors had the effect of improperly understating expenses by \$30,965 and understating revenues and financing sources by \$116,336. The original amount reported, restated amount, and change for each transaction follows:

<b>GL Account #</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
6100	Operating Expenses/Program Costs	30,964.91	
2110	Accounts Payable		30,964.91
4801	Undelivered Orders – Obligations, Unpaid	30,964.91	
4901	Delivered Orders – Obligations, Unpaid		30,964.91
1335	Accounts Receivable	116,336	
5750	Expenditure Financing Sources – Transfers-In		116,336
4225	Appropriation Trust Fund Expenditure Transfers – Receivable	116,336	
4450	Unapportioned Authority – Available		116,336

Recording these adjustments has the following effect on the FY 2010 financial statement:

Balance Sheet:

- Intragovernmental Accounts Receivable increased from \$75,608 to \$191,944
- Intragovernmental Accounts Payable increased from \$0 to \$30,965
- Cumulative Results of Operations – Other Funds increased from \$7,359,596 to \$7,444,967

Statement of Net Cost

- Program Costs increased from \$885,162 to \$916,127

Statement of Changes in Net Position

- Transfers-In/Out Without Reimbursement – Other Funds increased from \$2,601,242 to \$2,717,578
- Net Cost of Operations – Other Funds increased from \$885,162 to \$916,127
- Cumulative Results of Operations – Other Funds increased from \$7,359,596 to \$7,444,967

Statement of Budgetary Resources

- Expenditure Transfers from Trust Funds increased from \$2,703,357 to \$2,819,693
- Total Budgetary Resources increased from \$8,244,758 to \$8,361,094
- Unobligated Balance – Not Available increased from \$2,703,357 to \$2,819,693
- Change in Uncollected Customer Payments from Federal Sources decrease from \$(52,650) to \$(168,986)
- Uncollected Customer Payments from Federal Sources decreased from \$(75,608) to \$(191,944)

This error was discovered while performing audit procedures for the fiscal year 2011 audit. Martin & Wall made inquiries to management and the accounting service provider relating to these transactions and determined that the transactions were in error and caused a material misstatement. Management concurred with Martin & Wall and authorized the restatement of the financial statement as presented above.

The predecessor auditor was provided the audit adjustments impacting FY 2010 and we asked to provide a response as to whether these adjustments affected their audit opinion. As of the issuance of this report, the predecessor auditor has not provided a definitive response.

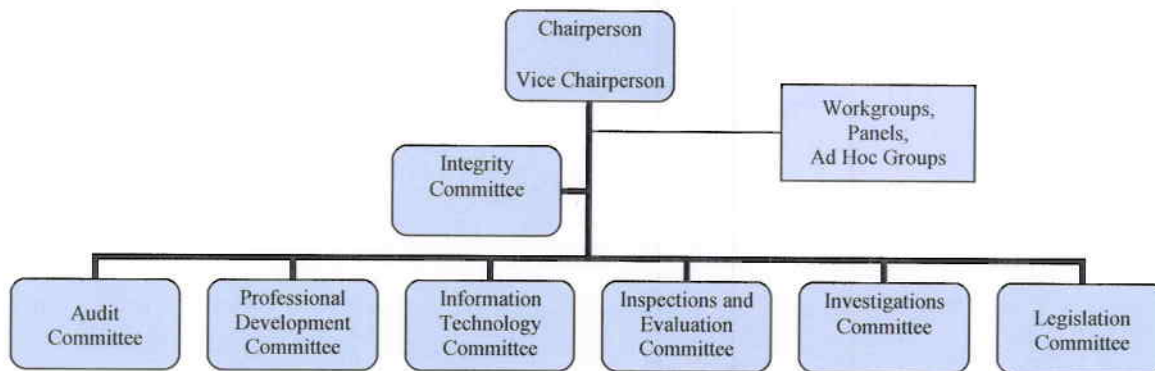
### **NOTE 13 – SUBSEQUENT EVENTS**

CIGIE has evaluated subsequent events occurring after the balance sheet date and through the date of November 15, 2011, the date the financial statements were available for release. Based upon this evaluation, CIGIE has determined that no subsequent events have occurred which require disclosure in the financial statements.

## Other Accompanying Information

### *CIGIE Committees*

CIGIE consists of seven (7) standing committees, six (6) of which represent the functional responsibilities with the IG community. The seventh, the Integrity Committee, is a statutory committee established by the IG Reform Act of 2008 that serves as an independent and objective investigative mechanism for addressing allegations of misconduct against IGs and or their staff members. The following organizational chart represents the Council's organizational structure.



## **Committees**

### **Audit Committee**

The Audit Committee provides leadership to and serves as a resource for the Federal IG audit community. Sponsors and coordinates audits that address multi-agency or Government-wide issues, maintains professional standards for OIG audit activities, and administers the audit peer review program. Provides input to the CIGIE Professional Development Committee and the Training Institute on the training and the development needs of the CIGIE audit community, and advice to the Chairperson, Vice Chairperson, and Executive Director regarding CIGIE's contracts for audit services.

### **Professional Development Committee**

The Professional Development Committee provides educational opportunities, through the Training Institute, for members of the IG community and ensures the development of competent personnel. Receives input from the Audit, Investigations, and Inspections and Evaluation Committees on the training and the development needs of the CIGIE community. Seeks opportunities to improve training methods, enhance the development of OIG staff, and establish training to meet continuing educational requirements.

### **Information Technology Committee**

The Information Technology Committee facilitates effective OIG information technology (IT) audits, evaluations, reviews, and investigations, and provides a vehicle for expressing the IG community's perspective on Government-wide IT operations.

### Inspection and Evaluation Committee

The Inspection and Evaluation Committee provides leadership for the CIGIE inspection and evaluation community's effort to improve agency program effectiveness by maintaining professional standards; leading the development of protocols for reviewing management issues that cut across departments and agencies; promoting the use of advanced program evaluation techniques; and fostering awareness of evaluation and inspection practice in OIGs. The Committee provides input to the CIGIE Professional Development Committee and the Training Institute on the training and the development needs of the CIGIE inspection and evaluation community.

### Investigations Committee

The Investigations Committee contributes to improvements in program integrity, efficiency, and cost effectiveness government-wide by providing analysis of investigative issues common to federal agencies. Provides the CIGIE community with guidance, support, and assistance in conducting high quality investigations. Provides input to the CIGIE Professional Development Committee and the Training Institute on the training and the development needs of the CIGIE investigations community. Actively engages the Assistant Inspector General for Investigations Committee to assist in carrying out the Investigations Committee's goals and strategies.

### Legislation Committee

The Legislation Committee ensures that CIGIE is kept abreast of matters in the Congressional arena that are of interest to the IG community. Develops, coordinates, and represents the official IG community positions on legislative issues.

### Integrity Committee

The Integrity Committee is required by the IG Act and is chaired by the FBI official serving on the Executive Council. The committee consists of four CIGIE member IGs appointed by the Council Chairperson for four-year terms. In addition, the Special Counsel of the Office of Special Counsel and the Director of the Office of Government Ethics are members. The Chief of the Public Integrity Section of the Criminal Division of the Department of Justice, or designee, serves as legal adviser. In conjunction with the Council Chairperson, the Integrity Committee develops its own policies and procedures, which are submitted to the congressional committees of jurisdiction.

In addition to these seven standing committees, there are several councils, panels, roundtables, and work groups that are discipline-specific within the IG community or function under the auspices of CIGIE or the standing committees. A few examples of these and their purposes are

- Federal Audit Executive Council (FAEC) – A council under CIGIE established to discuss and coordinate issues affecting the Federal audit community with special emphasis on audit policy and operations of common interest to CIGIE members.
- IG Candidate Recommendations Panel – A panel under CIGIE which, as required by the IG Act, maintains and submits to appointing officials recommendations of individuals for vacant IG positions.
- Misconduct in Research Working Group - The general mission of the working group is to assess the role of IGs in investigating allegations of research misconduct and to recommend, as appropriate, guidance for such investigations.

- Inspection and Evaluation Roundtable – A roundtable that provides support to the Inspection and Evaluation Committee on a myriad of issues pertinent to the inspection and evaluation function with the IG community.
- Suspension and Debarment Working Group – This working group under the Investigations Committee is focused on finding ways to protect taxpayer dollars through expanded and more effective use of suspension and debarment remedies.
- Council of Counsels to the Inspectors General (CCIG) – Comprised of counsels to IGs, this council discusses issues of common interest generally of a legal nature within the IG community.
- Homeland Security Roundtable - This roundtable operates under the auspices of CIGIE. Its mission is to support the IG community by sharing information, identifying best practices, and participating on an ad hoc basis with various external organizations and governmental entities with respect to homeland security activities.

## Staff

The Council maintains its own permanent staff for which the Chairperson provides oversight. Council staff is responsible for supporting the activities of the Council, including, but not limited to, preparing minutes of all Council meetings, drafting Council reports such as the annual report, administering the peer review activity, maintaining the Council’s website and archives, maintaining a Training Institute for the professional training of OIG personnel, and additional functions. Below represents the Council’s staff organizational structure.



**Appendix**

**Martin and Wall, A Division of Chortek & Gottschalk, LLP**

**Independent Auditors Report**



1633 Q Street, NW • Suite 230 • Washington, DC 20009 • Tel. 202.332.3566

[WWW.MARTINWALLCPA.COM](http://WWW.MARTINWALLCPA.COM)

## Independent Auditor's Report

Council Chair, Audit Committee and Executive Director  
Council of the Inspectors General on Integrity and Efficiency  
Washington, DC

In accordance with the Accountability of Tax Dollars Act of 2002, we are responsible for conducting audits of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). We have audited the accompanying balance sheet of the Council of the Inspectors General on Integrity and Efficiency as of September 30, 2011 and the related statement of net cost, changes in net position, and budgetary resources for the year then ended. Information presented as of and for the year ended September 30, 2010 is presented for comparison purposes. CIGIE's financial statements as of and for the year September 30, 2010 were audited by other auditors, whose report dated December 6, 2010 expressed an unqualified opinion on those statements. Subsequently, the 2010 financial statements were restated.

The objective of our audit was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2011 audit, we also considered the Council of the Inspectors General on Integrity and Efficiency's internal control over financial reporting and tested the Council of the Inspectors General on Integrity and Efficiency's compliance with selected provisions of applicable laws and regulations that could have a direct and material effect on these financial statements.

### Summary

In our audit of the Council of the Inspectors General on Integrity and Efficiency for the fiscal year ended September 30, 2011, we found:

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting (including safeguarding assets), however, we did identify three matters that we consider to be significant deficiencies in internal control over financial reporting;
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss our opinion on the Council's financial statements; our consideration of the Council's internal controls over financial reporting; our tests of the Council's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements; and management's and our responsibilities.

### Opinion on Financial Statements

We have audited the accompanying balance sheet of the Council of the Inspectors General on Integrity and Efficiency as of September 30, 2011 and the related statement of net cost, changes in net position, and budgetary resources for the year then ended.





In our opinion, the financial statements referred to above, including the accompanying notes, present fairly, in all material respects, the financial position of the Council of the Inspectors General on Integrity and Efficiency, as of September 30, 2011, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

CIGIE's financial statements as of September 30, 2010 were audited by other auditors, whose report dated December 6, 2010 expressed an unqualified opinion on those statements. Subsequently, the 2010 financial statements were restated. We also audited the adjustments described in Note 12 that were applied to restate the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information section is not a required part of the financial statements, but is supplemental information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted of principally inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

### **Internal Control Over Financial Reporting**

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Appendix B-Notice of Findings and Recommendations and Management Responses, that we consider to be significant deficiencies in internal control over financial reporting:

- NFR 11-01 Improper Recording of Advances and Prepayments
- NFR 11-02 Improper Revenue Recognition
- NFR 11-03 Improper Recording of Accrued Expenses and Accounts Payable

We noted certain additional matters that we reported to the Council's management addressing internal control matters.

### **Compliance and Other Matters**

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.



## **Responsibilities**

**Management Responsibilities:** Council of the Inspectors General on Integrity and Efficiency's management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing and maintaining effective internal control, (3) complying with laws, regulations, contracts and agreements applicable to the Council.

**Auditor's Responsibilities:** Our responsibility is to express an opinion on the fiscal year 2011 financial statements of the Council of the Inspectors General on Integrity and Efficiency based on our audit. We also audited the adjustments described in Note 12 that were applied to restate the 2010 financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council of the Inspectors General on Integrity and Efficiency's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation;
- Obtaining an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- Considering the design of the process for evaluating and reporting on internal control;
- Testing compliance with selected provisions of laws, regulations, contracts and agreements applicable to the Council that could have a direct and material effect on the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered the Council of the Inspectors General on Integrity and Efficiency's internal control over financial reporting by obtaining an understanding of the Council's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with



controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

As part of obtaining reasonable assurance about whether the Council of the Inspectors General on Integrity and Efficiency's fiscal year 2011 financial statements are free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws, regulations, contracts and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts and grant agreements applicable to the Council. However, providing an opinion on compliance with laws, regulations, contracts and agreements was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

#### **Agency Comments and Our Evaluation**

In commenting on a draft of this report (see Appendix A), the Council of the Inspectors General on Integrity and Efficiency concurred with the facts and conclusions in our report.

#### **Use and Distribution of Report**

This report is intended solely for the information and use of the Council of the Inspectors General on Integrity and Efficiency's management and Council members, the U.S. Office of Management and Budget, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Chotef & Sattahy, LLP*

Washington, DC  
November 15, 2011

APPENDIX A –  
COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY  
COMMENTS ON  
DRAFT AUDIT REPORT



*Council of the*  
**INSPECTORS GENERAL**  
*on INTEGRITY and EFFICIENCY*

NOV 15 2011

Mark E. Albrecht, CPA, Partner  
Martin & Wall, A Division of Chortek & Gottschalk, LLP  
1633 Q Street, NW, Suite 230  
Washington, DC 20009

Dear Mr. Albrecht:

We have reviewed the draft audit report provided to us relating to your audit of the Council of the Inspectors General on Integrity and Efficiency for the fiscal year ended September 30, 2011. We concur with the facts and conclusions in the draft report.

Sincerely,

Mark D. Jones  
Executive Director

**Appendix B –  
Notice of Findings and Recommendations and Management Responses  
Council of Inspectors General on Integrity and Efficiency  
Fiscal Year 2011 Audit**

### Notice of Findings and Recommendations (NFR) Summary Table

Table Key: CD=Control Deficiency, SD=Significant Deficiency and MW=Material Weakness

NFR#	Findings by Area	Risk Level			Affected Activity	
		CD	SD	MW	Financial Reporting	Compliance
<b>Process/Activity Level Controls</b>						
11-01	Improper Recording of Advances and Prepayments		√		√	
11-02	Improper Revenue Recognition		√		√	
11-03	Improper Recording of Accrued Expenses and Accounts Payable		√		√	

The following pages present the condition, criteria, cause, effect, recommendation and management response for each NFR. Per professional auditing standards, it is beyond the scope of the financial statement audit and related report on internal control to evaluate or comment on the sufficiency of management's responses to each NFR.



**Council of the Inspectors General on Integrity and Efficiency**  
**Notice of Findings and Recommendations**  
**FYE September 30, 2011**

**11-01: Improper Recording of Advances and Prepayments**

**Condition:** The Council of the Inspectors General on Integrity and Efficiency (CIGIE) lacks a formal process for identifying and recording advances and prepayments. As a result, certain costs were fully expensed at the time of obligation and payment, where the proper accounting treatment was to allocate costs by fiscal year based on when services were performed/delivered.

**Criteria:** Statement of Federal Financial Accounting Standards (SFFAS) #1, *Accounting for Selected Assets and Liabilities*, states: "Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred... [and] should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire." Common examples of prepayments are amounts prepaid for rent and insurance. This account does not close at year-end.

**Cause:** Neither management nor its accounting service provider (General Services Administration) had a process in place to identify and record transactions that have a nature of advances and prepayments, an asset of the CIGIE.

**Effect:** At September 30, 2011, advances and prepayments (SGL 1410) and undelivered orders-obligations, paid (SGL 4802) were materially understated while operating expenses (6100) were immaterially overstated, and delivered orders- paid (4902) were materially overstated. Amounts and specific transactions are documented in AJE 11-01.

**Recommendation:**

CIGIE should consult with its accounting service provider to develop an effective process for properly recording payments to either advances and prepayments or operating expenses/program costs, depending upon the delivery status of the transaction. Written accounting policies and procedures should be developed for specific types of transactions, such as training. CIGIE should determine whether the certified invoice stamp should be modified to include boxes for advances/prepayments vs. delivered goods/services. In addition, CIGIE should incorporate this item into its assessment of risks of potential material misstatements and potential accuracy and classification errors when performing monthly reconciliations of accounting service provider reports to internal logs of obligations, expenditures and outlays.



## Notice of Findings and Recommendations

### Management Response:

CIGIE management concurs with the finding and the recommendations herein. By the end of 2<sup>nd</sup> quarter, FY 2012, CIGIE will:

- Develop and implement written accounting policies and procedures documenting an effective process for properly recording payments, such as those to either current fiscal year operating expenses/program costs or advances and prepayments, including the handling of different types of transactions (travel, procurement credit card, interagency agreements, contracts, etc.).
- Redesign the form used to certify invoices to include listing amounts for:
  - Current fiscal year delivered program costs
  - Advance/prepayment expense for future fiscal years
  - Note: The redesign of the form and its implementation will take place by November 30, 2011 with an analysis of all paid invoices processed since October 1, 2011 to ensure there are no instances of unrecorded prepayments of expense.
- Ensure the accuracy and classification of transactions as contained in forms produced by the accounting service provider by periodically (at least quarterly) reconciling CIGIE internal logs to them.

**11-02: Improper Revenue Recognition**

Condition: The Council of the Inspectors General on Integrity and Efficiency (CIGIE) did not review the accuracy and completeness of non-exchange revenues, financing sources and accounts receivable at September 30, 2010. As a result, certain signed assessment agreements were not recorded in the proper period, leading to a material understatement of revenues, financing sources and accounts receivable as of September 30, 2010, and a corresponding overstatement of revenues and financing sources for 2011.

Criteria: Statement of Federal Financial Accounting Standards (SFFAS) #7, *Accounting for Revenue and Other Financial Sources*, states: "Non-exchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforcing claim to cash or other assets. It is recognized to the extent that the collection is probable (i.e., more likely than not) and the amount is measurable (i.e., reasonably estimable)."

Cause: Financial close and reporting controls were under development as of September 30, 2010. Management submitted to its accounting service provider five signed assessment agreements in August 2010. However, three of the five were not recorded. Accordingly, CIGIE's reconciliation controls failed to detect the incompleteness of the revenue transactions.

Effect: Revenue, financing sources and accounts receivable were materially understated at September 30, 2010 by the amounts detailed in AJE 11-02, resulting in the restatement of the financial statements. Revenue and financing sources were overstated by the same amounts at September 30, 2011 as a result of recording the assessment agreements in the improper period.

Recommendation:

CIGIE should establish effective procedures to periodically reconcile the total assessment revenue from their internal tracking log to amounts recorded on the trial balance and financial statements to verify that revenues and financing sources have been recorded in the proper period. Additionally, CIGIE should implement procedures to verify that the accounting service provider has accurately and completely processed and recorded all transactions as instructed.

Management Response:

CIGIE management concurs with the finding and the recommendations herein. By the end of 2<sup>nd</sup> quarter, FY 2012, CIGIE will:

- Develop and implement effective procedures to periodically reconcile the total assessment revenue from internal tracking logs to amounts recorded by the accounting service provider. At the appropriate time prior to the end of the fiscal year, CIGIE staff will reconcile the total assessment revenue to the amounts recorded on the trial balance and financial statements.
- Develop and implement effective procedures to verify that the accounting service provider has accurately and completely processed and recorded all revenue-related transactions as instructed.

**11-03: Improper Recording of Accrued Expenses & Accounts Payable**

Condition: The Council of the Inspectors General on Integrity and Efficiency (CIGIE) lacks a formal process for identifying and recording accrued expenses and related accounts payable. As a result, costs were recorded in the improper period.

Criteria: Statement of Federal Financial Accounting Standards (SFFAS) Number 1, *Accounting for Selected Assets and Liabilities*, defines accounts payable as "amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities." SFFAS No. 1 further indicates, "[i]f invoices for those goods [or services] are not available when financial statements are prepared, the amounts owed should be estimated."

The Federal Manager's Financial Integrity Act of 1982 (FMFIA) required the Government Accountability Office (GAO) to establish standards for internal control. GAO/AIMD-00-21.3.1, *Standards for Internal Control in the Federal Government*, provides, "[t]ransactions should be promptly recorded to maintain their relevance and value to management...This applies to the entire process or life cycle of a transaction...In addition, control activities help to ensure that all transactions are completely and accurately recorded...Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form."

Cause: Financial close and reporting controls were under development as of September 30, 2010. Neither management nor its accounting service provider (General Services Administration) had a process in place to identify and record transactions that have a nature of accrued expenses and related accounts payable. Accordingly, CIGIE's reconciliation controls failed to detect the incompleteness of accrued expenses and related accounts payable.

Effect: Operating expenses/program costs, accounts payable and Delivered Orders-Obligations, Unpaid, were understated at September 30, 2010 by the amounts detailed in AJE 11-03. Amounts are immaterial, but exceed trivial. Undelivered orders are overstated by the same amount. Additionally, failure to accrued expenses at September 30, 2010 resulted in a corresponding overstatement of operating expenses/program costs, accounts payable, and delivered orders unpaid at September 30, 2011.

## Notice of Findings and Recommendations

### Recommendation:

CIGIE should formally document the policies and procedures necessary to facilitate the period-end financial close and reporting process. The policy and procedures discussed above should incorporate the following elements to address accuracy and completeness of obligations, expenditures, and accounts payable:

1. Review all current, active contracts to identify if an accrual would be necessary. If needed, contact the vendor to determine how much is expected to be invoiced for the goods or services provided for the period of accrual.
2. Review purchase card and travel card transactions to identify any costs incurred associated with the period of accrual.
3. Obtain and review the aging obligation detail report, at least quarterly, to determine whether obligations, undelivered orders, accounts payable accruals, and total payments for each obligation are accurate and complete.
4. Develop a written list of accounts payable accruals, requests for deobligations, and/or other corrections required prior to submission of the periodic financial statements to the Office of Management and Budget (OMB) and the independent auditor.
5. Reconcile financial statements to source documentation, prior to finalizing and submitting the statements to OMB and the independent auditor.
6. Identify the vendors or classes of transactions that present the greatest risk of error, develop controls to reduce those risks to an acceptable level, and perform on-going monitoring of the operating effectiveness of those controls.
7. Provide training to all staff to ensure the staffs are familiar with the policies and procedures, and understand their roles and responsibilities as it pertains to reviewing contracts and determining if information is needed from the vendor to support an accrual.

### Management Response:

CIGIE management concurs with the finding and the recommendations herein. By the end of 2<sup>nd</sup> quarter, FY 2012, CIGIE will:

- Develop and implement effective policies and procedures necessary to facilitate the period-ending financial close and reporting process. These policies and procedures will incorporate the necessary guidance to properly address each of the recommendations enumerated above.