



U.S. Department of Housing and Urban Development
Office of Inspector General
451 7th St., S.W.
Washington, D.C. 20410

JAN 12 2007

The Honorable J. Russell George
Inspector General
Treasury Inspector General for Tax Administration
1125 15th St, NW
Washington, DC 20005

Dear Mr. George:

We have reviewed the system of quality control for the audit function of the Treasury Inspector General for Tax Administration (TIGTA) in effect for the year ended March 31, 2006. A system of quality control encompasses the OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of TIGTA. Our objective was to determine whether TIGTA's internal quality control system was adequate as designed and provided reasonable assurance that it met applicable auditing standards, policies, and procedures.

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

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that

the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Our scope and methodology appears as Appendix A. TIGTA was provided with a draft report on November 22, 2006. TIGTA's response dated December 20, 2006, is included as Appendix B and was considered in preparing the final report.

UNMODIFIED OPINION REPORT

In our opinion, the system of quality control for the audit function of the Treasury Inspector General for Tax Administration (TIGTA) in effect for the year ended March 31, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year then ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention, although they did not impact our opinion. These matters are described in the Findings and Recommendations that follow.

Findings and Recommendations

Finding 1. Performance Audit Reports – Internal Control Statement.

TIGTA's performance audit reports did not *explicitly* state the scope of work on internal controls and any significant deficiencies in internal control found during the audit. GAGAS at paragraph 8.17 states: "*Auditors should include in the audit report the scope of work on internal control and any significant deficiencies found during the audit.*" TIGTA's report policy states that the results of review section of performance reports: "*describes the audit work conducted on internal controls and any significant weaknesses identified during the audit.*" Further, TIGTA's Checklist for Review of Individual Performance Audits asks the question: "*Did the report disclose the scope of work on internal controls and any significant weaknesses identified?*"

Eight of the 12 reports we reviewed did not describe TIGTA's work on internal controls or sufficiently describe the significant deficiencies in internal controls. The report writers stated they met the standard because their reports implied or inferred work on internal control, and deficiencies were reported in the findings. Further, TIGTA stated it interpreted the standard as not requiring the use of the term "internal control" and believes the detailed scope and objectives section of the reports adequately described the specific internal controls reviewed without using the term. We believe the standard does require specific language and that TIGTA's reports would benefit from such specificity. We contacted the General Accountability Office (GAO) and asked if auditors should take the statement in paragraph 8.17 literally. GAO responded affirmatively.

Recommendation 1. TIGTA should specifically describe the work on internal controls and internal control deficiencies in its performance reports. We further recommend that the Director, Office of Policy and Management, include this requirement as part of the pre-issuance review.

Views of Responsible Official. Agree. The Deputy Inspector General for Audit agreed to issue appropriate guidance requiring auditors to describe internal controls in performance reports and to add checks for internal controls to the pre-issuance review.

Finding 2. Performance Audit Reports – Reporting on the Validity and Reliability of Computer-Processed Data.

TIGTA's performance audit reports did not state whether or not TIGTA performed audit tests to assess the validity and reliability of computer-processed data. The GAGAS at paragraphs 8.12 and 8.44 require the auditor to comment on the reliability of information from an agency's database. TIGTA's report policy states the results of review section of performance reports: "*Will briefly contain the source of any computer-generated data evaluated and the methods used to determine their validity and reliability.*" We noted four reports where the sources of computer-processed data were cited in the report, but the report did not discuss the tests performed to assess the validity of the data. Even if no tests of the data are required (i.e. data used for background purposes), the GAGAS require auditors to state in the report that the data was not verified. This condition was also reported in the previous peer review report. TIGTA management stated they were aware the reports needed better language to comply with GAGAS and had issued a memorandum to the audit staff to that effect in January 2006.

Recommendation 2. TIGTA should comment not only on the source of computer-processed data, when data are mentioned in audit reports, but also whether or not it performed audit tests to assess the validity and reliability of the data. Additionally, if TIGTA performs such tests, the report should briefly describe the tests and their results. We further recommend that the Director, Office of Policy and Management, include this requirement as part of the pre-issuance review.

Views of Responsible Official. Agree. Additional guidance will be issued to require auditors to report on whether or not audit tests were performed to assess the validity and reliability of the data to the extent such data are significant to an audit's findings, conclusions, or recommendations. Checks will also be added to the pre-issuance review.

Finding 3. Internal Quality Assurance Reviews

TIGTA can enhance its quality control system by centralizing the responsibility for conducting the Internal Quality Assurance Reviews under the Director of Office Management and Policy. The GAGAS at paragraph 3.49 sets forth general standards for systems of quality control. TIGTA's policies comply with those standards and the PCIE's guidelines on Quality Assurance Programs. Currently, each TIGTA division performs a review of another division every three years. However, TIGTA has not

established specific procedures for conducting internal reviews. The review process used did not conform to TIGTA's normal performance audit process in that those auditors performing the quality assurance review were not involved in obtaining and evaluating the reviewed office's responses and they were not required to use checklists and independent referencing. One audit manager was not allowed to review results from the prior review, another team did not prepare standard work papers, but used informal spreadsheets and Word files and other work papers were not complete. As a result, the reviews were not consistent and the directors and audit managers were unfamiliar with the review process.

Recommendation. TIGTA should centralize the responsibility for quality reviews under one Director and conduct the reviews using auditing procedures that are consistent with performance auditing standards.

Views of Responsible Official. Agree. The internal quality assurance reviews will be centralized under the Director, Office of Management and Policy, who will conduct the reviews using auditing procedures consistent with performance audit standards.

Sincerely,



Kenneth M. Donohue
Inspector General

Peer Review Scope and Methodology

We tested compliance with Treasury Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of 12 of 170 audit reports issued during the September 30, 2005, and March 31, 2006 semiannual reporting periods. We also reviewed the internal quality control reviews performed by Treasury Inspector General for Tax Administration during the same period.

Our audit was conducted at TIGTA Headquarters in Washington, DC using TeamMate work papers. We interviewed Headquarters staff and field personnel as necessary. The specific performance audits reviewed were:

Schedule of Audits Reviewed

Business Unit	Report Number	Report Date	Report Title
HOP	2005-10-035	02/17/2005	Review of the Exempt Organization Function Process for Reviewing Alleged Political Campaign Intervention by Tax Exempt Organizations
HOP	2005-10-125	08/10/2005	Additional Actions Are Needed to Ensure Section 527 Political Organizations Publicly Disclose Their Activities Timely and Completely
HOP	2006-10-060	03/22/2005	Invoice Audits of the Taxpayer Burden Simulation Models Contract
ISP	2005-20-027	01/12/2005	The Method of Tracking Corrective Actions for Known Security Weaknesses Has Not Been Adequately Developed
ISP	2006-20-001	10/18/2005	The Excise Files Information Retrieval System Has Not Been Effectively Implemented
ISP	2006-20-031	02/22/2006	Secure Configurations Are Initially Established on Employee Computers, but Enhancements Could Ensure Security Is Strengthened After Implementation
WIP	2005-40-015	12/10/2004	Application of the Earned Income Credit Two-Year Ban Could be More Consistent, Accurate and Clear to Taxpayers
WIP	2005-40-039	03/11/2005	The Earned Income Credit Recertification Program Continues to Experience Problems
WIP	2006-40-061	03/22/2006	The Taxpayer Assistance Center Closure Plan Was Based on Inaccurate Data
SBP	2005-30-131	09/23/2005	More Effective Procedures Are Needed to Process Taxpayer's Claims That They Did Not Request Employer Identification Numbers Assigned to Them
SBP	2005-30-142	09/21/2005	Collection Field Function Needs to Improve Case Actions to Prevent Employers From Incurring Additional Trust Fund Tax Liabilities
SBP	2006-30-006	11/22/2005	Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated \$30 Billion Tax Gap Due to Non-Filers

TIGTA's Comments



INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

December 20, 2006

The Honorable Kenneth M. Donohue
Inspector General
United States Department of Housing and Urban Development
451 7th Street, SW
Washington, D.C. 20410

Dear Mr. Donohue:

Thank you for the opportunity to respond to your November 22, 2006, draft report on the system of quality control for the Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit (OA). We are pleased that your review confirmed that OA's system of quality control has been designed in accordance with the requirements of the quality standards established by the Comptroller General of the United States, and that TIGTA's adherence to this system provides reasonable assurance of conformance with auditing standards, policies, and procedures.

We have reviewed your comments and recommendations and will take the following actions to enhance our quality control system:

- Recommendation 1 – TIGTA should specifically describe the work on internal controls and internal control deficiencies in its performance reports. We further recommend that the Director, Office of Management and Policy, include this requirement as part of the pre-issuance review.

OA Action – The Deputy Inspector General for Audit will issue a memorandum to all OA employees as a reminder that the assessment of internal controls should be documented in the working papers for each project. The memorandum will also advise all OA employees that performance reports must describe the work on internal controls and internal control deficiencies. This guidance will also be incorporated into the TIGTA Operations Manual. The Director, Office of Management and Policy, will modify pre-issuance review guidelines to include checks for reporting on internal controls and internal control deficiencies. The planned completion date for this action is January 15, 2007.

- Recommendation 2 – TIGTA should comment not only on the source of computer-processed data when data are mentioned in audit reports, but also whether or not it performed audit tests to assess the validity and reliability of the

data. Additionally, if TIGTA performs such tests, the report should briefly describe the tests and their results. We further recommend that the Director, Office of Management and Policy, include this requirement as part of the pre-issuance review.

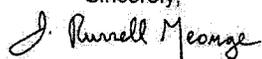
OA Action – On January 26, 2006, the Deputy Inspector General for Audit issued a memorandum to all OA employees on assessing the reliability of computer-processed data. The memorandum provided guidance for assessing and reporting on the reliability of computer-processed data that are significant to an audit's findings, conclusions, or recommendations. The contents of the memorandum were subsequently incorporated into the TIGTA Operations Manual. In addition to the January 26, 2006, guidance, the Deputy Inspector General for Audit will issue a memorandum to all OA employees reminding them that not only should audit reports comment on the source of all computer-processed data, but also on whether or not audit tests were performed to assess the validity and reliability of the data to the extent such data are significant to an audit's findings, conclusions, or recommendations. This additional guidance will also be incorporated into the TIGTA Operations Manual. The Director, Office of Management and Policy, will modify pre-issuance review guidelines to include additional checks for comments on the reliability and validity of computer-processed data as well as the source. The planned completion date for this action is January 15, 2007.

- Recommendation 3 – TIGTA should centralize the responsibility for quality reviews under one Director and conduct the reviews using auditing procedures that are consistent with performance audit standards.

OA Action – Effective January 1, 2007, OA will centralize responsibility for internal quality assurance reviews under the Director, Office of Management and Policy, and will conduct the reviews using auditing procedures consistent with performance audit standards.

If you have any further questions, please contact me at (202) 622-6500, or your staff may contact Michael R. Phillips, Deputy Inspector General for Audit, at (202) 927-7085.

Sincerely,

A handwritten signature in cursive script that reads "J. Russell George".

J. Russell George
Inspector General