



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

NOV 19 2009

The Honorable Eric M. Thorson
Inspector General
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Room 4436
Washington, DC 20220

Subject: *System Review Report on the Department of the Treasury Office of Inspector
General Audit Organization*

Dear Mr. Thorson:

Enclosed is the final System Review Report on the Department of the Treasury Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included as the Exhibit, with excerpts incorporated into the relevant sections of the report.

We agree with your proposed corrective actions to the recommendations. We thank you and all of your respective staff for the assistance and cooperation provided during the conduct of the review.

If you or your staff have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (703) 284-2604 or by e-mail at klemstinee@state.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Geisel".

Harold W. Geisel
Acting Inspector General

Enclosure: As stated.

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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General



Office of Inspector General

Office of Audits

System Review Report on the Department of the Treasury Office of Inspector General Audit Organization

Report Number AUD-10-12, November 2009

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

System Review Report

To The Honorable Eric M. Thorson, Inspector General
Department of the Treasury

We have reviewed the system of quality control for the audit organization of the Department of the Treasury Office of Inspector General (OIG) in effect for the year ended March 31, 2009. 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 *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The OIG is responsible for designing a system of quality control and complying with it to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed Department of the Treasury OIG personnel and obtained an understanding of OIG's audit organization and the design of OIG's system of quality control sufficient to assess the risks implicit in OIG's audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with OIG's system of quality control. The engagements selected represented a reasonable cross-section of OIG's audit organization. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for OIG's audit organization. In addition, we tested compliance with OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of OIG's policies and procedures on selected engagements. Our review was based on selected

tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. 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.

The enclosure to this report identifies the offices of the Department of the Treasury OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the Department of the Treasury OIG in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide the Department of the Treasury OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The Department of the Treasury OIG has received a peer review rating of *pass*. As is customary, we have issued a letter dated November 19, 2009, which sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. Your response to the draft report is included as an Exhibit, and excerpts are incorporated into the relevant sections of the letter.

In addition to reviewing the Department of the Treasury OIG's system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by CIGIE related to the Department of the Treasury OIG's monitoring of engagements performed by Independent Public Accountants (IPA) under contract where the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and therefore is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the Department of the Treasury OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion, and accordingly, we do not express an opinion, on the Department of the Treasury OIG's monitoring of work performed by IPAs.



Harold W. Geisel, Acting Inspector General

Enclosure

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SCOPE AND METHODOLOGY

We tested compliance with the Department of the Treasury Office of Inspector General (OIG) audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 11 of 39 audit and attestation reports issued during the period April 1, 2008, through March 31, 2009, and semiannual reporting periods of April 1, 2008, through March 31, 2009, as shown in Tables 1 and 2. We also reviewed the internal quality control reviews performed by the Department of the Treasury OIG.

Of these 11 reports, six were performance audits; one was a financial statement audit; and four were OIG's monitoring of engagements performed by Independent Public Accountants (IPA) where the IPA served as the principal auditor during the period April 1, 2008, through March 31, 2009.

We visited the Boston, Massachusetts, and Washington, D.C., offices of the Department of the Treasury OIG.

Table 1. Review of Reports Performed by the Department of the Treasury OIG

Report No.	Report Date	Report Title
OIG-08-030	04/09/08	TERRORIST FINANCING/MONEY LAUNDERING: Responsibility for Bank Secrecy Act Is Spread Across Many Organizations
OIG-08-036	06/12/08	BILL AND COIN MANUFACTURING: BEP Needs to Enforce and Strengthen Controls at Its Eastern Currency Facility to Prevent and Detect Employee Theft
OIG-08-038	07/21/08	ACCESSIBILITY OF FINANCIAL SERVICES: OCC Is Appropriately Using HMDA Data in its Risk Assessment Process to Identify Possible Discriminatory Lending Practices
OIG-08-040	07/25/08	CAPITAL INVESTMENTS: Treasury Foreign Intelligence Network Project Experienced Delays and Project Management Weaknesses

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Report No.	Report Date	Report Title
OIG-08-041	07/28/08	FINANCIAL MANAGEMENT: Controls Over Treasury's Working Capital Fund Expense Process Need Improvement
OIG-09-002	10/21/08	Audit of the United States Mint's Schedule of Custodial Deep Storage Gold and Silver Reserves as of September 30, 2008 and 2007 (financial statement audit)
OIG-09-013	11/25/08	SAFETY AND SOUNDNESS: Material Loss Review of ANB Financial, National Association

Table 2. Review of the Department of the Treasury OIG Monitoring Files of Audit Work Performed by an Independent Public Accounting Firm

Report No.	Report Date	Report Title
OIG-08-046	09/26/08	INFORMATION TECHNOLOGY: Federal Information Security Management Act Fiscal Year 2008 Performance Audit
OIG-09-004	11/07/08	FINANCIAL MANAGEMENT: Report on the Bureau of the Public Debt Trust Fund Management Branch Schedules for Selected Trust Funds as of and for the Year Ended September 30, 2008
OIG-09-006	11/17/08	Audit of the Department of the Treasury's Fiscal Years 2008 and 2007 Financial Statements
OIG-09-021	12/22/08	Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2008 and 2007 Financial Statements

LETTER OF COMMENT

To The Honorable Eric M. Thorson, Inspector General

Department of the Treasury

We have reviewed the system of quality control for the audit organization of the Department of the Treasury Office of Inspector General (OIG) in effect for the year ended March 31, 2009, and have issued our report thereon dated November 19, 2009, in which the Department of the Treasury OIG received a rating of pass. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding 1. Documentation of Fraud Risk Assessment and Internal Control Review

In two of the six performance audits reviewed, we found that the audit team marked the audit guide's section on fraud risk assessment as "Not Applicable" and did not document in the working papers any explanation for this conclusion. Government Auditing Standards, paragraph 7.30, states that auditors, in planning the audit, "should assess risks of fraud occurring that is significant within the context of the audit objectives." The paragraph further states that auditors "should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud." Also, auditors "should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions." In addition, paragraph 7.77 states that auditors "must prepare audit documentation related to planning, conducting, and reporting for each audit." The audit directors stated that the fraud risk assessments were done during the planning phase but had not been documented. They also stated that these audits pertained to Treasury regulators and therefore had less fraud risk.

Additionally, for these same two performance audits, the audit team marked the audit guide's section on internal control review as "Not Applicable" and did not document in the working papers any explanation for this conclusion. Govern-

ment Auditing Standards, paragraph 7.16, states that auditors “should obtain an understanding of internal control that is significant within the context of the audit objectives.” Within that context, auditors “should assess whether internal control has been properly designed and implemented.” The paragraph further states, “For those internal controls that are deemed significant within the context of the audit objectives, auditors should plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls.” Paragraph 7.77, which requires auditors to prepare documentation, is also applicable.

Recommendation 1: Department of the Treasury OIG management should comply with Government Auditing Standards and require audit teams to document why the fraud risk assessment and internal control review are not applicable to a performance audit when such is concluded.

In its response to the draft report, the Department of the Treasury OIG official concurred with the finding and recommendation, stating that the need to explain in the audit documentation why a fraud risk assessment or internal control review is considered not applicable for a particular audit had been discussed with senior managers. The OIG official said that there will be a follow-up on the discussion by including a requirement in the updated Office of Audit Policy and Procedures Manual that whenever an audit guide step is marked “Not Applicable,” the reason must be stated in the audit documentation and signed off by a supervisor. The OIG official further stated that “it will make clear that a ‘Not Applicable’ determination for steps related to fraud risk assessment and internal control review should be rare.”

Finding 2. System of Quality Control – Updated Policy and Procedures Manual

We found that the Department of the Treasury OIG had established a system of quality control, including the Office of Audit Policy and Procedures Manual; however, the Manual had not been updated to incorporate the changes in the Government Auditing Standards July 2007 revision. An updated manual incorporating changes in the Government Auditing Standards July 2007 revision has been drafted and is pending final management approval. OIG officials said that final approval had been delayed because of other priorities and a lengthy management review process.

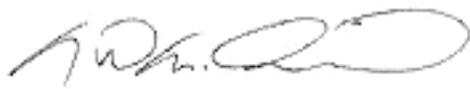
Although the Office of Audit Policy and Procedures Manual had not been updated since May 2006, the Department of the Treasury OIG has issued several interim policies to ensure compliance with current requirements of Government

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Auditing Standards. Also, current Government Auditing Standards requirements have been incorporated into the procedures in the TeamMate library. Our review of 11 audit reports identified no significant instances of noncompliance with applicable auditing standards.

Recommendation 2: Department of the Treasury OIG management should finalize and issue the Office of Audit Policy and Procedures Manual incorporating changes contained in the Government Auditing Standards July 2007 revision.

In its response to the draft report, the Treasury OIG official concurred with the finding and recommendation, stating that executive review and final approval of the updated Office of Audit Policy and Procedures Manual had been delayed because of “other pressing matters” but that the OIG plans to issue the Manual in final form by December 31, 2009.



Harold W. Geisel, Acting Inspector General

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RECOMMENDATIONS

Recommendation 1: Department of the Treasury OIG management should comply with Government Auditing Standards and require audit teams to document why the fraud risk assessment and internal control review are not applicable to a performance audit when such is concluded.

Recommendation 2: Department of the Treasury OIG management should finalize and issue the Office of Audit Policy and Procedures Manual incorporating changes contained in the Government Auditing Standards July 2007 revision.

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Exhibit



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 3, 2009

Ms. Evelyn R. Klemstine
Assistant Inspector General for Audit
Office of Inspector General
Department of State
1700 N. Moore Street, Suite 720
Rosslyn, VA 22209

Dear Ms. Klemstine:

Thank-you for the opportunity to comment on your draft report dated October 8, 2009, on the results of your office's external peer review of the Department of the Treasury Office of Inspector General (OIG), Office of Audit. As part of the review, your draft Letter of Comment identified two findings:
(1) Documentation of Fraud Risk Assessment and Internal Control Review and
(2) System of Quality Control – Updated Policy and Procedures Manual. We concur with both findings and recommendations, and have established the following planned corrective actions.

For Finding 1, I discussed the need with our senior managers to explain in the audit documentation why a fraud risk assessment or internal control review is considered not applicable for a particular audit. I will follow-up on this discussion by including a requirement that whenever an audit guide step is marked "Not Applicable," the reason must be stated in the audit documentation and signed off by a supervisor in our updated Office of Audit Policy and Procedures Manual. Additionally, it will make clear that a "Not Applicable" determination for steps related to fraud risk assessment and internal control review should be rare.

For Finding 2, we acknowledge that executive review and final approval of the updated Office of Audit Policy and Procedures Manual has been delayed due to other pressing matters. We plan to have the Manual issued in final by December 31, 2009.

We wish to express our appreciation for the professionalism your team demonstrated in conducting the external peer review.

Sincerely,

/s/

Marla A. Freedman
Assistant Inspector General for Audit

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of Federal programs
and resources hurts everyone.

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