

**Board of Governors of the Federal Reserve System**

**REPORT ON THE EXTERNAL QUALITY  
CONTROL REVIEW OF THE AUDIT  
ORGANIZATION OF THE OFFICE OF  
INSPECTOR GENERAL FOR THE  
NATIONAL SCIENCE FOUNDATION**



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**OFFICE OF INSPECTOR GENERAL**

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February 2006



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

February 8, 2006

Dr. Christine C. Boesz  
Inspector General  
National Science Foundation  
4201 Wilson Boulevard, Room 1135  
Arlington, VA 22230

Dear Dr. Boesz:

We have reviewed the system of quality control for the audit function of the National Science Foundation's Office of Inspector General (NSF OIG) in effect for the year ended September 30, 2005. 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 the NSF OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). In performing our review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG'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. Our scope and methodology appears as Exhibit A and general comments appear as Exhibit B. The NSF OIG's written response to our draft report is included as Exhibit C.

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 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.

In our opinion, the system of quality control for the audit function of the NSF OIG in effect for the year ended September 30, 2005, 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 ended to provide the NSF OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

I would like to thank you and your staff for their cooperation during our review. If you have any questions or would like to discuss the report or any aspect of the review in more detail, my staff and I would be happy to do so.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry R. Snyder", with a long horizontal flourish extending to the right.

Barry R. Snyder  
Inspector General

## Peer Review Scope and Methodology

### Scope and Methodology

We tested compliance with the NSF OIG's system of quality control to the extent we considered appropriate. As part of our testing, we reviewed 8 of 25 audit reports issued during the March 31, 2005, and September 30, 2005, semiannual reporting periods, including the monitoring efforts for the audit of the NSF's fiscal year 2004 financial statements performed under contract by KPMG LLP. The table below lists the specific reports we reviewed. In addition, we reviewed one internal quality control review performed by the NSF OIG staff. Our work was conducted from November 22 through December 23, 2005.

### Audit Reports Reviewed

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
05-1-001	January 2005	Fresno Unified School District
05-1-004	March 2005	Audit of Grants Management and Expenditures on Selected NSF Awards at the University of South Dakota
05-1-005	March 2005	Raytheon Polar Services Company's Costs Claimed for Fiscal Years 2000 to 2002
05-2-003	November 2004	Fiscal Year 2004 Audit of NSF Financial Statements
05-2-007	February 2005	Audit of National Science Board Compliance with the Government in the Sunshine Act for 2004
05-6-004	February 2005	Audit of Grants Management at Dakota State University
05-1-008	August 2005	University of California, Berkeley
05-2-009	August 2005	Audit of NSF's Law Enforcement Program in the Antarctic

## **General Comments**

During our review, we made several observations that we believe warrant your consideration. These observations did not impact our opinion, but include suggestions to further enhance your internal system of quality control.

### **Quality Control Policies and Procedures**

During the past year, NSF OIG management revised and enhanced its policies and procedures to strengthen its system of quality control. Specifically, management developed written policies for independence, independent report referencing, and internal quality control reviews. We noted, however, that the NSF OIG's existing quality control policies and procedures did not include written procedures for all types of audit work or explicitly address several GAGAS standards. In addition, the guidelines for monitoring external audits were incomplete. Specifically, we noted the following:

- Policies and procedures have not been developed for monitoring audit work outsourced to certified public accountants (CPAs) performing the audit of the agency's financial statements and to other federal government agencies. Although our review showed that these audits generally complied with procedures contained in other existing policies, we suggest that the NSF OIG either broaden the scope of existing policies or develop new policies to include all types of audits.
- Policies and procedures did not explicitly address GAGAS standards in the following areas:
  - assessing knowledge, skills, and experience of hired specialists;
  - considering the results of previous audits and attestation engagements;
  - considering the work of others;
  - assessing the reliability of computer-processed data;
  - ensuring audit staff complete, every two years, at least eighty hours of continuing education and training;
  - reporting the views of responsible officials; and
  - issuing and distributing reports to appropriate officials.

Our review of audit workpapers and discussions with NSF OIG staff and management showed that the NSF OIG, in practice, complied with all of these elements. We suggest that the NSF OIG enhance existing policies to explicitly address GAGAS standards in each of these areas.

- The *Guidelines for Monitoring the Audits Performed for OIG by CPA or Non-Federal Auditors* (guidelines) included references to forty-four appendices. We noted many of the appendices referenced in the guidelines did not have an effective date and not all appendices provided were referenced in the guidelines. We suggest that the NSF OIG ensure that all appendices include an effective date and are referenced in the guidelines.

### **Internal Quality Assurance Program**

To help strengthen its system of internal quality control, the NSF OIG recently established an internal quality assurance program. We reviewed one "Internal Quality Control Report"

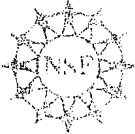
## EXHIBIT B

prepared by the program's staff; the report contained detailed information and demonstrated a thorough analysis of the adherence to GAGAS and NSF OIG quality control policies and procedures. Although this program continues to evolve, we believe it has already brought value to the NSF OIG by identifying opportunities to enhance practices and controls.

During our review, we noted that the program reports to the Executive Assistant in the Office of Audit. In addition to the quality assurance program, several auditors report to the Executive Assistant, some as direct reports and others for administrative purposes. Since any audit may be selected for review by the internal quality assurance program, audit activities led by the Executive Assistant's direct or administrative reports could be subject to an internal quality control review. As a further program enhancement, we believe the NSF OIG should review the quality assurance program's organizational placement and determine whether the Executive Assistant's position is in keeping with the guidelines established by the PCIE/ECIE to provide sufficient independent oversight for the program.

NATIONAL SCIENCE FOUNDATION  
4201 Wilson Boulevard  
ARLINGTON, VIRGINIA 22230

JAN 12 2006



OFFICE OF  
INSPECTOR GENERAL

Mr. William L. Mitchell  
Assistant Inspector General for Audits and  
Attestations  
Board of Governors of the Federal Reserve System  
Office of Inspector General  
Mail Stop 300  
20<sup>th</sup> Street & Constitution Avenue, NW  
Washington, D.C. 20551

Dear Mr. Mitchell:

Thank you for your letter dated January 13, 2006, and the accompanying official draft of the Report on the External Quality Control Review of the National Science Foundation Inspector General Audit Organization. We appreciate the work of your staff in providing an independent evaluation of our internal quality control system. As you requested, the following comments are in response to your observations and suggestions to further enhance our internal quality control system.

Quality Control Policies and Procedures

We agree with your suggestions and plan to take the following actions. We will review our existing policies and procedures and update them as necessary to ensure our policies explicitly address the GAGAS standards referenced in your report. In addition, we will update our existing monitoring procedures to ensure that they address all audit work that is outsourced to independent public accountants or to other Federal government agencies, including the annual financial statement audit and work outsourced to the Defense Contract Audit Agency. Finally, we will ensure that all policies and procedures have an effective date and are updated on a regular basis.

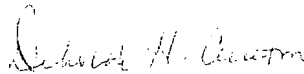
Internal Quality Assurance Program

In principle, we agree with your suggestion and will review the internal quality assurance program's placement in our organizational structure to maximize its independent oversight. The program is currently placed with the Executive Assistant who, with the exception of the financial statement audit, does not have direct supervisory responsibility for any other audits. Further, the Executive Assistant and the auditor who conducts these reviews are organizationally independent of the three audit groups.

Nevertheless, to strengthen our quality assurance program, we are looking at other placement options within the OIG organization.

We appreciate the efforts of you and your staff in conducting this review in a timely and professional manner. The report's thoughtful and constructive comments will assist us in continuing to improve our audit operations at the National Science Foundation.

Sincerely,



Deborah H. Cureton  
Associate Inspector General  
for Audit