



U.S. Department of Justice

Office of the Inspector General

March 7, 2007

MEMORANDUM FOR THE ATTORNEY GENERAL

A handwritten signature in black ink that reads "Glenn A. Fine".

FROM: GLENN A. FINE
INSPECTOR GENERAL

SUBJECT: Department of Justice, Office of the Inspector
General, Audit Division, External Peer Review
Report

I am pleased to provide you with a copy of the recently completed external peer review report on the Audit Division of the Department of Justice Office of the Inspector General (OIG).

The Federal Deposit Insurance Corporation (FDIC) OIG conducted the peer review and found that the system of quality control for the OIG's Audit Division had been designed in accordance with the quality standards established by the Comptroller General of the United States and provided the OIG with reasonable assurance of conforming with auditing standards, policies, and procedures. Therefore, the FDIC OIG issued an unmodified opinion on our system of audit quality control.

Please contact us if you have any questions about this report.

Attachment



Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

February 27, 2007

The Honorable Glenn A. Fine
Inspector General
Department of Justice
200 Constitution Avenue, NW
Washington, D.C. 20210

Subject: Report on the *Peer Review of the Department of Justice
Office of Inspector General's Audit Division*

Dear Mr. Fine:

Enclosed is the subject report of our review of your audit organization. Your response to the draft of this report is included in its entirety as Appendix C and is summarized in the report. We agree with your proposed corrective actions to the recommendations.

As you know, the guidelines established by the President's Council on Integrity and Efficiency (PCIE) require that your organization provide copies of the enclosed report to the Attorney General, the Chair and Vice Chair of the PCIE, and the Chair of the PCIE's Audit Committee. Also, your organization is responsible for the follow-up of corrective actions.

We thank you and your staff for your assistance and cooperation during the conduct of the review. If you have questions on the report, please contact Russell Rau, Assistant Inspector General for Audits, at (703) 562-6350 or Allan Sherman, Senior Program Specialist, at (703) 562-6349.

Sincerely,

Jon T. Rymer
Inspector General

Enclosure

cc: Guy Zimmerman, Department of Justice
Caryn Marske, Department of Justice
James Kendall, Department of Justice



Federal Deposit Insurance Corporation
3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

February 27, 2007

The Honorable Glenn A. Fine
Inspector General
Department of Justice

Dear Mr. Fine:

We have reviewed the system of quality control for the audit and attestation engagement functions of the Department of Justice (DOJ) Office of Inspector General's (OIG) Audit Division in effect for the 12-month period ended September 30, 2006. A system of quality control encompasses the Audit Division's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to generally-accepted government auditing standards (GAGAS). The elements of quality control and GAGAS are described in the *Government Auditing Standards (GAS)*, 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 Audit Division. Our objective was to determine whether the Audit Division's internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable audit and attestation engagement standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and the Audit Division'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 the Audit Division. In addition, we tested compliance with the Audit Division's quality control directives to the extent we considered appropriate. As part of our testing, we applied the Audit Division's directives to selected assignments. Our review was based on selective tests; therefore, it would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion. Our objective, scope, and methodology are detailed in Appendix A.

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, a projection of an evaluation of a system of quality control to future periods is subject to the risk that the system 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 internal quality control system for the audit and attestation engagement functions of the Audit Division in effect for the 12-month period ended

September 30, 2006 had 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 12-month period to provide the Audit Division with reasonable assurance of conforming with applicable auditing and attestation engagement standards, policies, and procedures.

We observed several noteworthy practices during our review which are described in Appendix B. However, we noted conditions that, while not impacting our opinion, warrant management attention. These matters are described in the Findings and Recommendations section below. The DOJ OIG's response to the draft of this report is in Appendix C.

Findings and Recommendations

1. Audit Division Directives

We found that the Audit Division's directives, presented in DOJ's *Inspector General Manual, Volume II – Audit* (Volume II – Audit), were consistent with the GAS 1994 Revision rather than the GAS 2003 Revision, which was in effect for the period of the peer review. GAS 3.50 states:

An audit organization's system of quality control encompasses the audit organization's structure and the policies adopted and procedures established to provide the organization with reasonable assurance of complying with applicable standards governing audits and attestation engagements....

We were advised that the Audit Division's directives were written to generally track to GAS and provide generic emphasis and elaboration on the standards presented in GAS. By design, the directives have no specific GAS citations. Further, Volume II – Audit states that Audit Division staff members are to ensure that they consult the latest GAS revision. Extensive discussions concerning the major changes between the 1994 and 2003 GAS revisions were held at the Audit Division's November 2003 Operations Review, where the Audit Division decided that a revision to the directives was not necessary. Instead, the Audit Division decided to identify training materials covering the 2003 Revision and make those materials available to the staff as well as incorporate information related to the 2003 Revision in all future in-house training courses.

During an Audit Division internal management review, completed in July 2006, the Audit Division tested compliance with the Volume II – Audit requirement to consult the current GAS. The internal management review team conducted surprise tests of individual staff, asking them to produce the current version of GAS either on-line or in hardcopy. We confirmed that Audit Division staff had ready access to the GAS 2003 Revision. The Audit Division's directives are a critical component of its internal quality control system for the audit and attestation engagement functions. Directives that do not incorporate new standards increase the risk that Audit Division staff members are not applying currently-applicable standards in the planning, conducting, and reporting of audit and attestation engagements. According to the Government Accountability Office's (GAO) Web site, GAS is to be revised and reissued again in early 2007, with an implementation date of January 1, 2008.

Recommendation 1 – The Audit Division should update its directives to be consistent with the GAS 2007 Revision when it is released.

DOJ OIG's Response – The DOJ OIG responded that, as noted in the peer review report, the Audit Division's directives are written to generally track to GAS and provide generic emphasis and elaboration on selected GAS standards. DOJ OIG concurred with the recommendation, and by June 30, 2007, the Audit Division will incorporate into its directives the GAS 2007 Revision, which was released on February 1, 2007. DOJ OIG will incorporate the forthcoming standards covering quality control and peer review when the standards are finalized.

2. Frequency of Internal Management Reviews

One of the monitoring activities in the Audit Division's internal quality control system was performed less frequently than required by GAS to provide timely feedback to Audit Division management. The Audit Division's multi-faceted internal quality control system includes directives, policies and procedures, assistance by the Advanced Audit Techniques and Office of Operations components, standardized audit programs for external audits, independent referencing of reports, and periodic internal management reviews. The internal management reviews are conducted to determine whether audit work complies with GAS, other applicable audit standards, and Audit Division directives.

The Audit Division performed internal management reviews in July 2003 and July 2006. However, a triennial frequency for such reviews is inconsistent with GAS 3.50, which requires monitoring of the internal quality control system on an ongoing basis rather than the periodic basis prescribed by the Audit Division's directives.

Because directives had not been updated to reflect the GAS 2003 Revision requirements, Audit Division management did not receive timely feedback regarding whether the directives were suitably designed and were being effectively applied to audit and attestation engagements. Timely feedback would enable the Audit Division to take corrective action, as necessary, to ensure compliance with GAS and Audit Division directives.

Recommendation 2 – The Audit Division should update its directives to require the performance of internal management reviews of the internal quality control system on a frequency consistent with the GAS 2007 Revision when it is released.

DOJ OIG's Response – DOJ OIG responded that the peer review report acknowledges that the Audit Division employs a multi-faceted internal quality control system that includes the conduct of internal management reviews. DOJ OIG concurred with the recommendation and agrees that more frequent management reviews will enhance its quality control procedures. The Audit Division will update its directives to incorporate the provisions of forthcoming standards covering the frequency of internal management reviews of the internal quality control system when the revisions are finalized by GAO.

3. Contractor Peer Review Reports

Two of five Requests for Proposal for contracted audit and attestation engagement reports issued during the period of our review did not include a requirement that bidders submit a peer review report and letter of comment, as required by the GAS 2003 Revision. Specifically, GAS 3.55 states:

Audit organizations seeking to enter into a contract to perform an assignment in accordance with GAGAS should provide their most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract, to the party contracting for the audit or attestation engagement. Information in the external peer review report and letter of comment is often relevant to decisions on procuring audit or attestation engagement services. Auditors who are relying on another audit organization's work should request a copy of the audit organization's peer review report and any letter of comment, and the audit organization should provide the peer review report and letter of comment when requested.

As a result of not updating directives to reflect the GAS 2003 Revision, the Audit Division hired two contractors without documentation of the results of the contractors' independent peer reviews.

The July 2006 internal management review identified this condition, and the Audit Division took corrective action by obtaining current peer review reports and by including the requirement for a peer review report in the current solicitation document for audit services.

Recommendation 3 – The Audit Division should update its directives to require peer review reports and letters of comment as part of the contracting process consistent with the GAS 2007 Revision when it is released.

DOJ OIG's Response – DOJ OIG responded that, as noted in the peer review report, the Audit Division identified this condition in its own internal management review and took immediate corrective action by obtaining current peer review reports and by including the requirement for a peer review report in the current solicitation document for audit services. The DOJ OIG concurred with the recommendation to update Audit Division directives to require peer reports and letters of comments consistent with the GAS 2007 Revision.

Sincerely,



Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our peer review was to determine whether the DOJ OIG's Audit Division internal quality control system was adequate as designed and complied with to provide reasonable assurance that applicable auditing and attestation engagement standards, policies, and procedures were met. The scope of our review was the Audit Division's internal quality control system in effect and the 89 reports issued during the 12-month period ended September 30, 2006.

We performed our review from August 2006 through January 2007 in accordance with the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency's *Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General* (issued in April 2005 and subsequently revised through December 2005). We tested compliance with the *Government Auditing Standards (2003 Revision)* and the *DOJ Inspector General Manual, Volume II – Audit*.

We tested compliance with the Audit Division's internal quality control system to the extent we considered appropriate. These tests included a review of selected reports issued by the Audit Division during two semiannual reporting periods: beginning October 2005 through September 2006. We also reviewed the *Fiscal Year 2006 Management Review* (dated July 6, 2006) performed by Audit Division staff and documentation supporting the report.

Nine offices in the Audit Division collectively issued 89 audit and attestation reports during the 12-month period ended September 30, 2006.¹ In sampling offices and reports for review, we considered the *Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General*, Addendum 2, step 24, which provided 11 sampling parameters.

We non-statistically² selected five of the nine offices that had issued reports during the period noted. Three of the five offices issued legislatively-mandated reports. Also, two of the five offices we selected were not included in the Audit Division's prior peer review (the prior report was dated March 2004). We visited the following offices:

- Computer Security and Information Technology Audit Office (Washington, D.C.)
- Denver Regional Audit Office
- Financial Statement Audit Office (Washington, D.C.)
- San Francisco Regional Audit Office
- Washington Regional Audit Office (Rosslyn, Virginia)

We non-statistically² selected 14 of the 89 reports issued by the Audit Division. Our sample provided a sufficient number of reports of various types to enable a conclusion on the adequacy of the internal quality control system. The tables on the next page provide details on the sampled reports.

¹ Single Audit Act reports were excluded from the population of reports subject to our review because these reports are not the responsibility of the Audit Division.

² The results of a non-statistical sample cannot be projected to the intended population by standard statistical methods.

Table 1: Population and Sample Information

Report Information	Population	Sampled	Percent Sampled
Total Reports	89	14	16%
GAS Type:			
Performance Audit	77	11	14%
Financial Audit	11	2	18%
Attestation Engagement	1	1	100%
Report Type:			
Internal	37	9	24%
External	52	5	10%
Performed by:			
DOJ OIG	68	9	13%
Contractors for DOJ OIG	21	5	24%
Legislatively-Mandated Report			
Yes	22	6	27%
No	67	8	12%

Table 2: Reports Reviewed

Number	Date	Title
GR-60-06-002	10/2005	<i>The United States Marshals Service Intergovernmental Service Agreement for Detention Services With the Dona Ana County Detention Center; Las Cruces, New Mexico</i>
06-03	11/2005	<i>Audit of the Federal Bureau of Prisons Pharmacy Services</i>
06-04	01/2006	<i>US DOJ's Annual Financial Statement, FY 2005</i>
None	01/2006	<i>DEA Annual Accounting and Authentication of Drug Control Funds, FY 2005</i>
06-13	03/2006	<i>Implementation of the Communications Assistance for Law Enforcement Act</i>
GR-90-06-005	03/2006	<i>Office of Community Oriented Policing Services Methamphetamine Initiative Grants to the California Department of Justice; Sacramento, California</i>
GR-90-06-002	03/2006	<i>Office of Justice Programs Grant Awarded to Beyond Missing, Incorporated; Sausalito, California</i>
06-19	03/2006	<i>Federal Bureau of Prisons Annual Financial Statement, FY 2005</i>
06-29	04/2006	<i>Independent Evaluation Pursuant to FISMA, FY 2005, the DOJ Bureau of Prisons' Information Security Program</i>
06-30	04/2006	<i>Independent Evaluation of the DEA's EPIC Information System — Classified — Pursuant to FISMA for FY 2005</i>
06-32	05/2006	<i>Combined DNA Index System Operational and Laboratory Vulnerabilities</i>
GR-30-06-006	06/2006	<i>Use of Equitable Sharing Assets by the Baltimore County, Maryland Police Department</i>
GR-90-06-008	07/2006	<i>Compliance With Standards Governing Combined DNA Index System Activities; Washoe County Forensic Science Division, DNA Unit; Reno, Nevada</i>
06-36	09/2006	<i>Department of Justice Purchase Card Expenditures Related to Hurricane Recovery Efforts</i>

NOTEWORTHY PRACTICES

We observed several noteworthy Audit Division practices during our review. Most importantly, Audit Division staff demonstrated a positive and supportive attitude toward the OIG mission and a high level of professionalism and expertise. We observed other noteworthy practices in the following areas:

Leadership Development Program

The Audit Division has taken exemplary action to help ensure leadership development and technical competency. Specifically, the Audit Division established a Leadership Development Program (LDP) to help ensure continued Audit Division leadership in light of organizational transition and required competencies. The LDP is structured to address five leadership competencies and skills to promote the Audit Division's core values. Program participants are assigned to an 8-month detail encompassing rotational assignments, formal classes, and special projects. The detail includes assignment to a regional office to assume responsibilities for audit planning, assignment staffing, and audit supervision and assignment to the Office of Operations to coordinate with regional offices in planning and monitoring audits. The LDP also entails special projects and formal training that address the five leadership competencies.

To further enhance leadership development and technical competency, the Audit Division prepares Individual Development Plans (IDP) based on identified target competencies and objectives. IDPs are developed based on specific recommended training and on-the-job experience that address the respective target competencies and objectives.

Quality Control

We noted that one office visited as part of our peer review used a comprehensive checklist for independent referencing of draft reports. The checklist addressed required report elements and structure based on GAS and quality control precepts. We believe that the checklist enhances the Audit Division's quality control process.

We also observed noteworthy practices and controls instituted to help ensure that assignments conducted by contract auditors met GAS and documented key communications for archival purposes. In particular, one office visited had done the following:

- Incorporated a monitoring checklist for assignments. The checklist tracks progress through planning, fieldwork, and draft and final deliverables.
- Prepared interim and final audit assurance memoranda, which provided summaries of the audit's progress at two major intervals and required approval from the office director.
- Created Portable Document Format files for electronic mail communications. These files documented communications among Audit Division staff and staff communication with a contractor.

DEPARTMENT OF JUSTICE
OFFICE OF INSPECTOR GENERAL COMMENTS



U. S. Department of Justice

Office of the Inspector General

FEB 14 2007

The Honorable Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
Arlington, Virginia 22226

Dear Mr. Rymer:

Thank you for the opportunity to respond to the draft *Peer Review of the Department of Justice Office of Inspector General's Audit Division*. The Office of the Inspector General's (OIG) Audit Division places the highest importance on the quality of its audit work as well as the peer review process; therefore, we are pleased that your independent review of our audit operations resulted in an unmodified opinion.

We also appreciate your assessment that the internal quality control system for the audit and attestation engagement functions of the Audit Division had been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States to provide reasonable assurance of conforming to applicable auditing and attestation engagement standards, policies, and procedures. We are also pleased that your report sets forth as noteworthy practices the Audit Division's positive and supportive attitude toward the OIG mission and its high level of professionalism and expertise, as well as its programs for leadership development and quality control.

We concur with the three recommendations set forth in your report, and we see each recommendation as an opportunity to further strengthen our system of quality control. Our response to each recommendation is contained in the enclosure to this letter.

Finally, we commend your staff for the professional, thorough, and courteous manner with which they conducted their review. Should you have any questions about this response, please contact me, Guy Zimmerman, Assistant Inspector General for Audit, or Caryn Marske, Deputy Assistant Inspector General for Audit, at 202-616-4633.

Sincerely,



Glenn A. Fine
Inspector General

Enclosure

cc: Guy K. Zimmerman
Assistant Inspector General for Audit

Caryn A. Marske
Deputy Assistant Inspector General for Audit

Enclosure

**OIG Audit Division's Response to the
Federal Deposit Insurance Corporation's
Peer Review**

FDIC Recommendation 1: The Audit Division should update its directives to be consistent with the GAS 2007 Revision when it is released.

Audit Division Response: As noted in the peer review report, the Audit Division's directives are written to generally track to Government Auditing Standards (GAS) and provide generic emphasis and elaboration on selected standards presented in GAS. We concur with the recommendation and by June 30, 2007, the Audit Division will incorporate into its directives the GAS 2007 Revision, which was released on February 1, 2007. We will incorporate the forthcoming standards covering quality control and peer review when they are finalized.

FDIC Recommendation 2: The Audit Division should update its directives to require the performance of internal management reviews of the internal quality control system on a frequency consistent with the GAS 2007 Revision when it is released.

Audit Division Response: The peer review report acknowledges that the Audit Division employs a multi-faceted internal quality control system that includes the conduct of internal management reviews. We concur with the recommendation and agree that more frequent management reviews will enhance our quality control procedures. We will update our directives to incorporate the provisions of forthcoming standards covering the frequency of internal management reviews of the internal quality control system when the revisions are finalized by the GAO.

FDIC Recommendation 3: The Audit Division should update its directives to require peer review reports and letters of comment as part of the contracting process consistent with the GAS 2007 Revision when it is released.

Audit Division Response: As noted in the peer review report, the Audit Division identified this condition in its own internal management review and took immediate corrective action by obtaining current peer review reports and by including the requirement for a peer review report in the current solicitation document for audit services. We concur with the recommendation to update our directives to require peer reports and letters of comments consistent with the GAS 2007 Revision, and we will make that change in our directives.