



MAR 12 2007

The Honorable Gordon S. Heddell
Inspector General
U.S. Department of Labor
200 Constitution Avenue NW.
Washington, DC 20210

Dear Mr. Heddell:

The enclosed report presents the results of our External Quality Control Review of the Audit Organization of the U.S. Department of Labor, Office of Inspector General. Your response to the draft report is included as Appendix B, and excerpts are incorporated into the relevant section of the report.

We agree with your proposed corrective actions in response to the recommendation. We thank you and your staff for the assistance and cooperation extended to us during our review.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph E. Vengrin, Deputy Inspector General for Audit Services, at (202) 619-3155 or through e-mail at Joseph.Vengrin@oig.hhs.gov.

Sincerely,

A handwritten signature in black ink that reads "Daniel R. Levinson". The signature is written in a cursive style.

Daniel R. Levinson
Inspector General

Enclosure

**REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW
OF THE AUDIT ORGANIZATION OF THE
U.S. DEPARTMENT OF LABOR, OFFICE OF INSPECTOR GENERAL**

We have reviewed the system of quality control for the audit function of the U.S. Department of Labor (DOL), Office of Inspector General (OIG), in effect for the year ended March 31, 2006. A system of quality control encompasses DOL OIG's organizational structure and the policies adopted and procedures established to provide 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 DOL 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 DOL OIG's compliance with the system based on our review.

We conducted our review in accordance with 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 DOL OIG's system of quality control. In addition, we tested compliance with DOL OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of DOL OIG's policies and procedures to selected audits. Because we based our review on selective tests, the review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with the system. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because of 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 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 appear as Appendix A.

In our opinion, the system of quality control for the audit function of DOL OIG in effect for the year ended March 31, 2006, was 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 to provide DOL OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

However, we noted matters that warrant your attention, although they did not affect our opinion. These matters are described in the "Findings and Recommendation" section below.

FINDINGS AND RECOMMENDATION

Since its previous external peer review, DOL OIG has significantly improved its quality control system. Specifically, DOL OIG established, as a separate function, a team of independent reviewers who report directly to its headquarters. In addition, DOL OIG made extensive changes to its audit policies and procedures to provide further guidance for auditors.

However, we identified two areas in which DOL OIG could further enhance its quality control system. Specifically, although DOL OIG performed independent referencing reviews of all audit reports that we reviewed, some aspects of those reviews needed improvement. In addition, an internal quality control review (IQCR) overlooked the lack of certain supporting audit documentation. These conditions occurred because DOL OIG did not always follow its own policies and procedures. However, there is no indication that these findings affected the reliability of any of the audit reports that we reviewed.

Finding 1. Internal Quality Control – Independent Referencing Reviews

According to GAGAS 3.50, “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.” Independent referencing, an integral part of an audit organization’s quality control system, helps ensure the quality of audit reports.

DOL OIG’s policies and procedures addressed the importance of independent referencing and provided guidance for independent referencing reviewers. However, for two of the eight audit reports we reviewed, independent referencing reviewers did not fully comply with applicable standards. One audit report had more than one exception.

- One audit report included statements that were not cross-referenced to the working papers and therefore not independently reviewed. Specifically, the independent referencing reviewer did not independently review the entire scope and methodology sections of the report.
- The independent referencing reviewer did not ensure that the appropriate supervisory review of one audit report was performed as required. The audit documentation indicated that a complete supervisory review did not take place until 4 months after the final report was issued.
- For one audit report, certain independent referencing review notes had not been resolved by the completion of our review; however, there is no indication that these unresolved review notes affected the reliability of the report.

Finding 2. Internal Quality Control Review Process – Supporting Documentation

One of the methods by which an audit organization’s quality control system monitors its policies and procedures is through IQCRs of individual audits. According to GAGAS 7.68, “Audit

documentation serves to . . . provide the principal support for the auditors' report . . . and allow for the review of audit quality.” In addition, GAGAS 7.66 states that an experienced auditor should be able to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions.

DOL OIG's policies and procedures addressed the importance of IQCRs and provided guidance for performing these reviews. Nevertheless, DOL OIG's IQCR process needs improvement to enhance the quality of its reports and to ensure the quality control system's full compliance with applicable standards. For one of the two audit reports we reviewed that had been subjected to the IQCR process, the IQCR did not identify the lack of certain supporting documentation. Specifically, within that audit report:

- Several condition statements were referenced to a summary working paper that did not include any further references.
- Two condition statements in the body of the report were referenced to the Executive Summary, which in turn was referenced back to the body of the report.
- The audit documentation did not support one condition statement. Although part of the condition was referenced to a working paper that showed DOL OIG's analysis of criteria, the working paper did not support the condition or the conclusions drawn from it.

During our review, DOL OIG officials provided further explanations and/or additional documentation that supported the findings and conclusions in this report.

Need for Additional Improvements in the Quality Control System

Although DOL OIG's internal quality control system had improved since the prior external peer review, DOL OIG did not always follow its own policies and procedures with respect to independent referencing reviews and IQCRs. With additional improvements in these areas, DOL OIG could further enhance its internal quality control system.

Recommendation

We recommend that DOL OIG continue to improve its quality control system, including independent referencing reviews and the IQCR process, by ensuring that its policies and procedures are followed.

Department of Labor, Office of Inspector General, Comments

In written comments on our draft report, DOL OIG concurred with our recommendation. Specifically, DOL OIG stated that it was strengthening its policies and procedures regarding independent referencing reviews. DOL OIG also stated that it was expanding its IQCR process to include reviews in the areas of audit documentation, audit planning, and supervision and that it planned to use the IQCR results to discern systemic issues and implement corrective actions.

DOL OIG added that it planned to address these issues through training for its audit staff. DOL OIG's comments are included as Appendix B.

APPENDIXES

SCOPE AND METHODOLOGY

We tested compliance with the U.S. Department of Labor (DOL), Office of Inspector General (OIG), system of quality control to the extent we considered appropriate. These tests included a review of eight performance audit reports issued during the year ended March 31, 2006. We also reviewed DOL OIG's internal quality control process and reviewed two prior-period audits that were included in DOL OIG's most recent internal quality control reviews.

OFFICES REVIEWED

We conducted our review at DOL OIG's offices in the District of Columbia; New York, New York; and Atlanta, Georgia.

AUDIT REPORTS REVIEWED

Reports Issued During the Year Ended March 31, 2006

1. "Complaint Involving the Goodwill Industries of Lower South Carolina, Inc.," Report No. 04-05-001-03-386, July 7, 2005.
2. "Complaint Involving Adults Mankind Organization, Inc., Miami, Florida," Report No. 04-05-002-03-390, July 19, 2005.
3. "DOL Needs To Perform Electronic Media Sanitization More Effectively Prior to Transfer or Disposal," Report No. 23-05-028-50-598, September 30, 2005.
4. "FISMA Audit of the Emergency Management Network," Report No. 23-05-035-07-001, September 30, 2005.
5. "Performance Audit of City of Savannah, Georgia PY 1998 and PY 1999 Welfare-to-Work Competitive and Formula Grants – May 1, 1998 to June 30, 2003," Report No. 04-05-004-03-386, September 30, 2005.
6. "Performance Audit of Health Coverage Tax Credit (HCTC) Bridge and Gap Programs," Report No. 02-05-204-03-330, September 30, 2005.
7. "Findings and Recommendations Identified in an Audit of the Report on Performance and Accountability for the Year Ending September 30, 2005," Report No. 22-06-001-13-001, December 15, 2005.
8. "Welfare-to-Work Grant – National Puerto Rican Forum, Inc.," Report No. 02-06-201-03-386, March 31, 2006.

Prior-Period Audits Included in Internal Quality Control Reviews

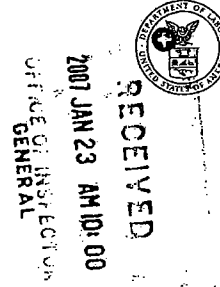
1. "The e-Payroll Quicksilver Project: 'Go/No-Go' Decision, Concerns Regarding Parallel Testing, Training and Resolution Status of Prior Recommendations – Period Ending August 12, 2004," Report No. 23-04-015-13-001, August 18, 2004.
2. "Performance Audit of South Florida Workforce Board Welfare-to-Work Formula Grants – Program Years 1998 and 1999," Report No. 04-04-002-03-386, September 30, 2004.

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

JAN 18 2007

The Honorable Daniel R. Levinson
Inspector General
Department of Health and Human Services
Room 5541 Cohen Building
330 Independence Avenue, S.W.
Washington, D.C. 20201



Dear Mr. Levinson:

Thank you for giving us the opportunity to comment on the draft report regarding our audit quality control system. The draft report's unmodified opinion confirms that we have performed and reported our audits in accordance with Government Auditing Standards, policies, and procedures. We appreciate your acknowledgement of the actions we have taken since the previous external peer review.

We are satisfied that the findings presented in the draft report do not represent noncompliance, but rather areas in which we can improve our quality control system. Further, we agree with the discussions involving improvements to our independent referencing reviews and supporting documentation. We have already implemented or plan to address these issues through our ongoing revisions to the OA Handbook and additional actions.

The draft report contained one recommendation as follows: "Continue to improve its quality control system, including independent referencing reviews and the IQCR process, by ensuring that its policies and procedures are followed."

We are currently strengthening our OA Handbook Chapter 10 requiring our independent reviewer team to fully document the review process. Further, we intend to provide additional instructions to our OA staff regarding audit documentation and referencing. In addition to the Regional Audit Office reviews, the OAQA plans to perform functional internal quality control reviews in the areas of audit documentation, audit planning, and supervision. Based on these results, we will discern systemic issues and implement OA-wide corrective actions. We also plan to address these issues through training for all OA staff at our CPE conference next summer.

Working for America's Workforce

We appreciate the work performed and professionalism shown by your staff in conducting the External Peer Review. Please contact Elliot Lewis at 202-693-5170 or me directly if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Gordon S. Heddell". The signature is written in a cursive style with a large initial 'G'.

Gordon S. Heddell
Inspector General