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**PEER REVIEW OF THE BOARD OF
GOVERNORS OF THE FEDERAL
RESERVE SYSTEM'S INSPECTOR
GENERAL AUDIT ORGANIZATION**

September 4, 2008

OFFICE OF INSPECTOR GENERAL



September 4, 2008

Elizabeth A. Coleman
Inspector General
Board of Governors of the Federal Reserve System
Office of Inspector General
20th Street and Constitution Avenue, NW
Stop 300
Washington, DC 20551

Dear Ms. Coleman:

We have reviewed the quality control system for the audit function of the Board of Governors of the Federal Reserve System (Board) Office of Inspector General (OIG) in effect for the eighteen-month period ended March 31, 2008. A quality control system 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 Board 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 and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the quality control system 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 quality control system or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

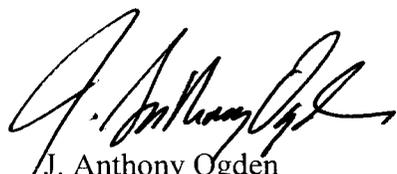
Elizabeth A. Coleman
Peer Review
September 4, 2008

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 quality control system to future periods is subject to 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 quality control system for the audit function of the Board OIG in effect for the eighteen-month period ended March 31, 2008, 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 period ended March 31, 2008, to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

While we are not reporting any findings and recommendations as a result of our review, we did make observations, including best practices that we are providing for your consideration. These observations are provided in Exhibit A, "General Comments." Our scope and methodology for the review are detailed in Exhibit B. Your response to the draft report is included as Exhibit C. Your proposed corrective action to our observation regarding the completion of independence statements is responsive and requires no further action.

We appreciate the assistance and cooperation provided by you and your staff during the conduct of the review.



J. Anthony Ogden
Inspector General

Exhibits

General Comments

Independence

During our review we made an observation regarding the generally accepted government auditing standard related to independence. This observation did not impact our opinion, but it includes suggestions to further enhance your internal system of quality control.

Sections 3.02 and 3.03, July 2007 version of GAGAS, requires the individual auditor to be independent in all matters relating to the audit work so that the auditor's work will be impartial and viewed as impartial by objective third parties. To meet this requirement, section 2 of the Board OIG's policy, "Scoping and Planning an Audit," requires the project team and external consultants to complete the OIG "Statement of Independence for Individual Projects."

While we found that project team members and external consultants did complete and file the independence statements consistent with the Board OIG's policy, we observed an opportunity to further enhance your internal system of quality control. The Assistant Inspector General for Audits and Attestations (AIGAA) reviews and signs all the working papers for every assignment as the final reviewer. However, the AIGAA has never completed an independence statement for any assignment because the Board OIG does not require its officers (Inspector General, Assistant Inspector General for Audits and Attestations, and Assistant Inspector General for Inspections and Evaluations) to complete and file independence statements.

By reviewing the working papers on every assignment, the AIGAA approves the nature, timing, and extent of auditing procedures; results of the audit procedures performed; audit evidence obtained; and conclusions reached on significant matters. An outside reviewer cannot conclude that the overall audit was performed objectively and credibly if the independence of those responsible for supervising and ultimately reviewing the working papers cannot be determined. Therefore, we suggest that the Board OIG ensure that all staff members assigned to the audit or attestation, including its officers, complete a statement of independence and that all of the statements of independence are filed in the assignment working papers.

The Board OIG agreed with our observation and updated their independence policy to require that all staff, including officers, complete a statement of independence.

Other Comments

Collectively and individually, the Board OIG staff is highly educated, has a depth of experience related to Board matters, and includes subject matter experts. We also

observed impressive audit practices in the OIG's audit organization. We noted a high level of interaction between the Board OIG Officers and the project team. The Officers are involved throughout the assignment as evidenced in the working papers by their attendance at meetings; reviews and comments on the audit progress; discussion of the issues as they arise; and assistance with creating charts and graphs that eventually appear in the audit reports.

The Board OIG has planning, fieldwork, and reporting standard audit programs for each type of assignment (performance, financial, and attestation) that address the government auditing standards to ensure the standards are met.

Also, as a result of the 2001 peer review, the Board OIG created a referencing policy that included not only reviewing audit reports but audit programs as well. The team assigned uses standard audit programs and modifies them to include steps specific to the audit objectives. The team identifies the working paper(s) that support the audit program step and an independent auditor with no connection to the assignment reviews the references to ensure the working papers addressed the audit step.

Finally, during the planning stage of the audit, the Board OIG ensures that the project team includes some members with an expertise related to the subject area. This knowledge allows the team to quickly assess the audit and to identify the issues to pursue.

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of 4 of 11 audit reports issued during the October 1, 2006 through March 31, 2008, semiannual reporting periods. In addition, we reviewed the OIG monitoring activities covering the FY 2007 financial statements for the Board of Governors of the Federal Reserve System that were performed under contract by Deloitte and Touche, LLP.

OIG Offices Reviewed

We visited the OIG office in Washington, D.C. and performed our fieldwork at that location. The OIG does not have any other office locations.

Audit Reports Reviewed

<u>Report Title</u>	<u>Date</u>
Audit of the Board's Payroll Process	12/5/2006
Report on the Audit of the Board's Information Security Program	9/25/2007
Applying Agreed Upon Procedures – Statement of Financial Accounting Standards No. 112	3/28/2007
Board of Governors of the Federal Reserve System Financial Statements as of and for the Years Ended December 31, 2007 and 2006 and Independent Auditor's Report	3/19/2008

FRB IG Comments



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

OFFICE OF INSPECTOR GENERAL

August 5, 2008

Mr. J. Anthony Ogden
Inspector General
Government Printing Office
North Capitol and H Streets, N.W.
Stop: IG
Washington, DC 20401

Dear Mr. Ogden:

Thank you for the opportunity to comment on the draft report of your review of the system of quality control for the audit function of the Office of Inspector General for the Board of Governors of the Federal Reserve System. We are pleased with your conclusion that our system of quality control in effect for the eighteen-month period ended March 31, 2008, was designed to meet the quality standards established by the Comptroller General of the United States and was being complied with during the period then ended, to provide us with reasonable assurance of conforming with applicable auditing standards, policies, and procedures. We also appreciate your comments on best practices, including your recognition of our staff qualifications, depth of experience, and subject matter expertise; the positive interaction between our officers and project teams throughout assignments; and our continued efforts to update policies and procedures to strengthen our compliance with generally accepted government auditing standards.

To further enhance our internal system of quality control, you suggested that we expand our independence policy to ensure that officers also complete and file the "Statement of Independence for Individual Projects" forms, which are currently completed by the project team members and external consultants. We agree and have updated our independence policy accordingly.

We would like to thank you and your staff for a very thorough, timely, and professional peer review.

Sincerely,

A handwritten signature in black ink that reads "Elizabeth A. Coleman".

Elizabeth A. Coleman
Inspector General

cc: Mr. Kevin Carson
Mr. Brent Melson
Ms. Vera Garrant