



Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

December 16, 2011

Mark Bialek
Inspector General
Board of Governors of the Federal Reserve System
1709 New York Avenue NW
Washington DC 20006

Subject: System Review Report on the Board of Governors of the Federal Reserve System Office of Inspector General Audit Organization

Dear Mr. Bialek:

Attached is the final System Review Report of the Board of Governors of the Federal Reserve System 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 Exhibit A.

We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review.

Rebecca Anne Batts
Inspector General
Attachment



Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

December 2, 2011

Mark Bialek
Inspector General
Board of Governors of the Federal Reserve System
1709 New York Avenue NW
Washington DC 20006

We have reviewed the system of quality control for the audit organization of Board of Governors of the Federal Reserve System (FRB) Office of Inspector General (OIG) in effect for the year ended March 31, 2011. A system of quality control encompasses FRB 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*. FRB OIG is responsible for designing a system of quality control and complying with it to provide FRB 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 FRB 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 FRB OIG personnel and obtained an understanding of the nature of the FRB OIG audit organization, and the design of the FRB OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the FRB OIG's system of quality control. The engagements selected represented a reasonable cross-section of the FRB OIG's audit organization, with emphasis on higher-risk engagements. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with FRB 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 the FRB OIG's audit organization. In addition, we tested compliance with the FRB OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the FRB 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, and 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.

Enclosure to this report identifies the offices of the FRB OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of FRB OIG in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide FRB 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*. FRB OIG has received a peer review rating of *pass*.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to FRB 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 FRB OIG had controls to ensure 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 FRB OIG's monitoring of work performed by IPAs.



Rebecca Anne Batts
Inspector General
Enclosures

SCOPE AND METHODOLOGY

Scope and Methodology

We tested compliance with the FRB OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 5 of 5 audit and attestation reports issued during the period April 1, 2010, through March 31, 2011, and semiannual reporting periods September 30, 2010 – March 31, 2011. We also reviewed the internal quality control reviews performed by FRB OIG.

In addition, we reviewed the FRB OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2010, through March 31, 2011. During the period, FRB OIG contracted for the audit of its agency's Fiscal Year 2010 financial statements.

We visited the Washington, DC office of FRB OIG.

Reviewed Engagements Performed by FRB OIG

Identify audit reports selected for review. For example:

<u>Report Title</u>	<u>Report Date</u>
2008 Audit of the Board's Transportation Subsidy Program	3/31/2011
2009 Audit of Lotus Notes/Dominio Infrastructure	6/24/2010
2009 Scoping Review of the Board's Lending Facilities and Special Programs	11/16/2010
2009 Security Control Review of IESub	12/17/2010
2010 Audit of the Board's Information Security Program - 2010 FISMA	11/15/2010

Reviewed Monitoring Files of FRB OIG for Contracted Engagements

<u>Report Title</u>	<u>Report Date</u>
2010 Financial Statement Audit CY10	2/28/2011



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

OFFICE OF INSPECTOR GENERAL

December 14, 2011

Ms. Rebecca Anne Batts
Inspector General
Pension Benefit Guaranty Corporation
1200 K Street, N.W.
Suite 470
Washington, DC 20005

Dear Ms. Batts:

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 Board of Governors of the Federal Reserve System Office of Inspector General. We are pleased that your independent review of our audit operations resulted in a "pass" rating and concluded that our system of quality control in effect for the year ended March 31, 2011, was adequately designed in accordance with quality standards established by the Comptroller General of the United States and was complied with during the period to provide us with reasonable assurance of conforming with applicable professional standards.

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

Sincerely,

A handwritten signature in blue ink that reads "Mark Bialek".

Mark Bialek
Inspector General

cc: Ms. Deborah Stover-Springer
Mr. Joseph Marchowsky
Mr. Jarvis Rodgers