



## SOCIAL SECURITY

August 18, 2006

MEMORANDUM FOR THE HONORABLE HAROLD DAMELIN  
INSPECTOR GENERAL  
DEPARTMENT OF THE TREASURY

The attached report presents the results of our external quality control review of the Department of the Treasury, Office of Inspector General's Office of Audit. Your response to the draft report is included as Appendix C.

We agree with your proposed corrective action to the recommendation. We thank you and your staff for their assistance and cooperation during the conduct of the review. If you have any questions, please have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr." with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.  
Inspector General

Attachment



## SOCIAL SECURITY

August 18, 2006

MEMORANDUM FOR THE HONORABLE HAROLD DAMELIN  
INSPECTOR GENERAL  
DEPARTMENT OF THE TREASURY

We have reviewed the system of quality control for the audit function of the Department of the Treasury (Treasury), Office of Inspector General (OIG) in effect for the year ended March 31, 2006. 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 Treasury 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 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.

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.

Our scope and methodology can be found at Appendix A. We also provide some general comments regarding Treasury OIG in Appendix B.

In our opinion, the system of quality control for the audit function of the Treasury OIG in effect for the year ended March 31, 2006 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 OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures. We noted, however, one condition that warrants your attention though it did not impact our opinion.

## **FINDING AND RECOMMENDATION**

We identified an opportunity for Treasury OIG to improve the integrity of its statistical projections. In one of the nine audits reviewed, the report contained statistical projection errors. We believe these errors could have been avoided had the statistical projection results been reviewed by a specialist. Treasury OIG's policies and procedures did not require that a specialist review and approve the results of statistical projections. The OIG's policies required that a specialist be consulted in planning statistical projections. The policies also required the audit team report any deviations from the sampling plan to the specialist. However, there was no requirement that a specialist review how the results of sampling were calculated or reported.

In the audit in question, the statistical specialist was consulted in planning the sampling methodology, but there was no indication the projection of the sample results was reviewed. In this audit report, the lower and upper limits for the statistical projection were calculated and reported incorrectly. While the errors in the lower and upper limits were not material to the findings and recommendations made in the report, we believe Treasury OIG can strengthen the integrity of its statistical projections and reduce the possibility of future errors by revising its policies and procedures to include a specialist's review of sample projection results.

We recommend Treasury OIG strengthen its policies and procedures for calculating and reporting the results of statistical information. For example, Treasury OIG could consider establishing a policy requiring that a specialist review the results of statistical sampling to ensure accurate reporting. Treasury OIG could also consider specifically including an item on its independent review or quality control checklists to ensure a specialist has approved the reporting of all statistical results.

In responding to our draft report, Treasury OIG agreed with our recommendation. See Appendix C for the full text of Treasury OIG's comments.



Patrick P. O'Carroll, Jr.  
Inspector General

## Scope and Methodology

We tested compliance with the Department of the Treasury (Treasury), Office of Inspector General's (OIG) system of quality control to the extent we considered appropriate. These tests included a review of eight performance audits, one financial statement audit performed by Treasury OIG staff, and monitoring activities covering the Fiscal Year 2005 financial statements for Treasury that were performed under contract. We also reviewed recent internal quality control reviews performed by Treasury OIG.

### Offices Reviewed

We visited Treasury OIG's Headquarters in Washington, D.C. and its Boston, Massachusetts field office.

### Audit Reports Reviewed

Report Number	Report Date	Report Title
OIG-04-035	June 29, 2004	Bureau of Engraving and Printing Controls Over Security Need to be Improved
OIG-05-032	March 23, 2005	TERRORIST FINANCING/MONEY LAUNDERING: Office of Terrorist Financing and Financial Crimes Needs to Refine Measures for Its Performance Budget and Implement a Data Collection and Reporting System
OIG-05-034	March 31, 2005	TERRORIST FINANCING/MONEY LAUNDERING: Additional Outreach and System Enhancements are Needed to Encourage Greater Use of FinCEN's BSA E-Filing
OIG-05-038	May 16, 2005	INFORMATION TECHNOLOGY: The Treasury Communications System's Disaster Recovery Capability Has Improved
OIG-05-040	July 13, 2005	INFORMATION TECHNOLOGY: Mint's Computer Security Incident Response Capability Needs Improvement
OIG-06-003	October 31, 2005	Audit of the United States Mint's Schedule of Custodial Gold and Silver Reserves as of September 30, 2005 and 2004
OIG-06-010	December 2, 2005	BILL AND COIN MANUFACTURING: The Bureau of Engraving and Printing Should Ensure That Its Currency Billing Rates Include All Costs and That Excess Working Capital Is Deposited in the General Fund
OIG-06-028	February 10, 2006	MAJOR ACQUISITIONS: Treasury Communications Enterprise Procurement was Poorly Planned, Executed, and Documented
OIG-06-029	March 23, 2006	INTERNATIONAL ASSISTANCE PROGRAMS: Review of Treasury Activities for Iraq Reconstruction

## General Comments

We observed numerous positive practices in Treasury OIG's audit organization. Most importantly, the audit staff showed a high level of professionalism and expertise. The audit staff displayed a thorough knowledge during discussions concerning the audits we reviewed. Also, the audit organization's policies and procedures had been thoroughly reviewed and updated since its last external quality control review.

We also observed noteworthy practices and controls instituted to help ensure audits were performed in accordance with professional standards. In particular, the OIG has an extensive quality control checklist.

## Treasury Office of the Inspector General Comments



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 16, 2006

Steven L. Schaeffer  
Assistant Inspector General for Audit  
Office of Inspector General  
Social Security Administration  
Baltimore MD 21235-0001

Dear Mr. Schaeffer:

Thank you for the opportunity to comment on your draft report dated July 27, 2006, on the results of your Office's peer review of the Department of the Treasury Office of Inspector General, Office of Audit. We also would like to express our appreciation for the professionalism of your team conducting the review.

We concur with the finding and recommendation in your draft report. I have discussed the matter with our senior managers and I will shortly issue a memorandum to all audit staff requiring that the statistical specialist review and document the results of statistical projections included in OIG audit reports. We also will include this procedure as an item in our internal quality control checklist and internal review program for performance audits. These actions will be completed in September 2006. Furthermore, we will incorporate the procedure in our current audit policy and procedures manual when it is updated during fiscal year 2007.

Again, we appreciate the efforts and observations made by your peer review team. If you have any questions, please contact me at (202) 927-5400, or Joseph A. Maranto, III, Director, Audit Operations, at (202) 927-0191.

Sincerely,

Marla A. Freedman  
Assistant Inspector General for Audit