



U.S. Securities and Exchange Commission  
Office of Inspector General  
Office of Audits

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# National Credit Union Administration System Review Report



May 7, 2010  
Report No. 478



OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

May 7, 2010

William DeSarno  
Inspector General  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Subject: System Review Report on the National Credit Union Administration's  
Office of Inspector General Audit Organization

Dear Mr. DeSarno,

Attached is the final System Review Report on the National Credit Union Administration's Office of Inspector General's audit organization conducted in accordance with Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included as Enclosure 2.

We are pleased that you agreed with all of our recommendations and we agree with your proposed corrective actions. Thank you and your staff for the courtesy and cooperation extended to our staff during the review.

Sincerely,

A handwritten signature in black ink, appearing to read "H. David Kotz".

H. David Kotz  
Inspector General

Attachment

## System Review Report

May 7, 2010

William DeSarno  
Inspector General  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Dear Mr. DeSarno,

We have reviewed the system of quality control for the audit organization of the National Credit Union Administration (NCUA), Office of Inspector General (OIG) in effect for the period ended October 30, 2009. A system of quality control encompasses NCUA 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 the *Government Auditing Standards*. NCUA OIG is responsible for designing a system of quality control and complying with it to provide NCUA 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 NCUA 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 NCUA OIG personnel and obtained an understanding of the nature of the NCUA OIG audit organization, and the design of the NCUA 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 NCUA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the NCUA 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 NCUA OIG's 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 NCUA OIG's audit organization. In addition, we tested compliance with NCUA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of NCUA 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.

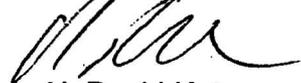
There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Enclosure 1 to this report identifies the audit engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of NCUA OIG in effect for the period ended October 30, 2009 has been suitably designed and complied with to provide NCUA 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*. The NCUA OIG has received a peer review rating of *pass*. As is customary, we issued a letter dated May 7, 2010, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

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 NCUA 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 NCUA 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 NCUA OIG's monitoring of work performed by IPAs.

Sincerely,



H. David Kotz  
Inspector General

Enclosures (2)

## SCOPE AND METHODOLOGY

We tested compliance with the NCUA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 1 of 2 audit reports issued during the period April 1, 2008, through October 30, 2009. We also reviewed the internal quality control review performed by NCUA OIG.

In addition, we reviewed the NCUA OIG's monitoring of an engagement performed by an IPA, where the IPA served as the principal auditor. NCUA OIG contracted for the audit of its agency's Fiscal Year 2008 Financial Statements. Due to problems related to a major accounting issue that has not been resolved, the financial statement audit has not been completed and a final report has not been issued. We reviewed this audit to determine whether it was adequately monitored.

### Reviewed Engagements Performed by NCUA OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
OIG-09-03	Oct 23, 2009	Material Loss Review – New London Security Federal Credit Union
OIG-08-06	June 4, 2008	Review of the Implementation of Homeland Security Presidential Directive 12

### Reviewed Monitoring Files of NCUA OIG for Contracted Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
Pending	Pending	NCUA Financial Statements



National Credit Union Administration

Office of Inspector General

The Honorable H. David Kotz  
Inspector General  
Office of the Inspector General  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Date: April 22, 2010

Subject: Report on the External Quality Control Review of the National Credit Union Administration Inspector General Audit Organization

Dear Mr. Kotz

We appreciate the work conducted by your staff in reviewing the quality control process for the audit function at the National Credit Union Administration (NCUA) OIG. We agree with your opinion that the system of quality control for the audit function meets the requirements established by the Comptroller General of the United States for a General Government audit organization. We have no additional comments on the final System Review draft report provided. Thank you for the professionalism shown and your efforts in completing this review.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. DeSarno".

William A. DeSarno  
Inspector General