

CORPORATION FOR PUBLIC BROADCASTING
OFFICE OF INSPECTOR GENERAL

System Review Report
of the
U.S. Securities and Exchange Commission's
Office of Inspector General Audit Organization

REPORT NO. ECO908-1001

January 22, 2010


Kenneth A. Konz
Inspector General



Corporation
for Public
Broadcasting

Office of Inspector General

January 22, 2010

Mr. H. David Kotz
Inspector General
U.S. Securities and Exchange Commission
Washington, D.C. 20549

Dear Mr. Kotz:

We have reviewed the system of quality control for the audit organization of the Securities and Exchange Commission (SEC), Office of Inspector General (OIG), in effect for the year ended March 31, 2009. 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 *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The SEC OIG is responsible for designing a system of quality control and complying with it to provide the SEC 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 the SEC 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 the SEC OIG's personnel, obtained an understanding of the nature of the OIG's audit organization, and the design of the OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audit engagements and administrative files to test for conformity with professional standards and compliance with the SEC OIG's system of quality control. The engagements selected represented a reasonable cross-section of the SEC OIG's audit activities. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with SEC OIG's management to discuss the results of our review.

In performing our review, we obtained an understanding of the system of quality control for the SEC OIG's audit organization. In addition, we tested compliance with the SEC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the SEC OIG's policies and procedures on selected audit engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the SEC OIG's 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 the SEC OIG in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide the SEC 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 SEC OIG has received a peer review rating of *pass*. As is customary, we have issued a letter of comment, dated January 22, 2010, that sets forth findings related to the design of and compliance with the SEC OIG's system of quality control that we did not consider 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 the SEC OIG's monitoring of audit work performed by Independent Public Accountants (IPA) under contract, where the IPA served as the principal auditor. It should be noted that monitoring of audit work performed by IPAs is not an audit and therefore is not subject to the requirements of the *Government Auditing Standards*. The purpose of our limited procedures was to determine whether the SEC 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 the SEC OIG's monitoring of work performed by IPAs.

In response to the draft report, the SEC OIG's management provided written comments on September 15, 2009. Their response is included as Enclosure 2 in this report.


Kenneth A. Konz,
Inspector General

Enclosures

SCOPE AND METHODOLOGY

We tested compliance with the SEC OIG audit organization's system of quality control to the extent we considered appropriate. Those tests included a review of 2 of 8 audit reports issued in accordance with *Government Auditing Standards*, during the period April 1, 2008, through March 31, 2009, and semiannual reporting periods ended September 30, 2008 and March 31, 2009. We also reviewed the internal quality control reviews performed by the SEC OIG.

In addition, we reviewed the SEC OIG's monitoring of audit work performed by an IPA, during the period April 1, 2008, through March 31, 2009. During that period, the SEC OIG contracted for the audit of its agency's Division of Enforcement's Disgorgement Waivers and another audit to be performed in accordance with *Government Auditing Standards*.

Reviewed Audit Engagements Performed by the SEC OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
459	March 13, 2009	Regulation D Exemption Process
448	March 27, 2009	2008 Audit of Sensitive Payments

Reviewed Monitoring Files of the SEC OIG for Contracted Audit Engagements

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
452	February 3, 2009	Division of Enforcement's Disgorgement Waivers



OFFICE OF
INSPECTOR GENERAL

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

September 15, 2009

Mr. Kenneth Konz
Inspector General
Corporation for Public Broadcasting
401 Ninth Street, N.W.
Washington, D.C. 20004

Re: System Review Report on the
U.S. Securities and Exchange Commission
Office of Inspector General Audit Organization

Dear Mr. Konz:

Thank you for the opportunity to comment on the draft *System Review Report* on the U.S. Securities and Exchange Commission Office of Inspector General Audit Organization's system of quality controls.

We are very pleased that your office concluded that our system of quality controls was suitably designed and provided reasonable assurances that our audit organization conducted and reported audits in conformity with the applicable professional standards established by the Comptroller General of the United States, in all material respects. We are very pleased to receive a "passing" peer review rating.

The external peer review is an important aspect to our quality control system. We are committed to maintaining an effective system of quality controls and strive to continuously improve our audit operations. We will provide a separate response to your "Letter of Comment" and agree that your "Letter of Comment" discusses findings that are not sufficient enough to affect our system of quality controls.

We appreciate the thorough and exhaustive manner in which your staff conducted this review. Should you have any questions, please do not hesitate to contact me or Jacqueline Wilson, Assistant Inspector General for Audits, at (202) 551-6326.

Sincerely,

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

H. David Kotz
Inspector General