



JUN 23 2009

System Review Report

The Honorable Richard L. Skinner
Inspector General
Department of Homeland Security
Attn: Office of Inspector General
STOP 2600
245 Murray Drive S.W., Building 410
Washington, D.C. 20528

We have reviewed the system of quality control for the audit organizations of the Department of Homeland Security, Office of Inspector General (DHS-OIG) in effect for the year ended September 30, 2008. A system of quality control encompasses DHS-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*. DHS-OIG is responsible for designing a system of quality control and complying with it to provide the DHS-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 DHS-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 DHS-OIG personnel and obtained an understanding of the nature of DHS-OIG audit organizations, and the design of DHS-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 DHS-OIG's system of quality control. The engagements selected represented a reasonable cross-section of DHS-OIG's audit organizations, 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 DHS-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 DHS-OIG's audit organizations. In addition, we tested compliance with DHS-OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of DHS-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; 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.

Enclosures 1 and 2 provide background related to DHS-OIG and identify the offices of DHS-OIG we visited and the engagements we reviewed. Enclosure 3 is your response to the draft report in its entirety.

In our opinion, the system of quality control for the audit organizations of DHS-OIG in effect for the year ended September 30, 2008, has been suitably designed and complied with to provide DHS-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*. DHS-OIG has received a peer review rating of *pass*. As is customary, we have issued a letter dated June 23, 2009, 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 DHS-OIG's monitoring of engagements performed by Independent Public Accountants (IPAs) under contract, where the IPAs served as the principal auditors. 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 DHS-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 DHS-OIG's monitoring of work performed by IPAs.

We appreciate the courtesies extended to our staff during their review.


Gordon S. Heddell
Inspector General

Enclosures

ENCLOSURE 1

BACKGROUND

The *Inspector General Act of 1978* (P.L. 95-452), as amended, established Inspector General offices in federal departments and agencies. The *Homeland Security Act of 2002* (P.L. 107-296) established the DHS-OIG, by amendment to the *Inspector General Act*. By this action, Congress ensured independent and objective audits, inspections, special reviews, and investigations of the operations of the new Department.

Audits are performed by three components within DHS-OIG: the Office of Audits, the Office of Emergency Management Oversight, and the Office of Information Technology Audits. As of September 30, 2008, these components comprised a professional staff of 284 auditors, evaluators, and specialists working at the Headquarters in Washington, D.C., and 13 field offices.

Table 1: Professional Audit Staff by Office

Office	Professional Staff	Number of Field Offices
Audits	141	6
Emergency Management Oversight	87	6
Information Technology Audits	56	1
Total	284	13

Source: DHS-OIG Office of Administration

In Fiscal Year (FY) 2008, DHS-OIG supplemented its 284 in-house professional staff by contracting with Independent Public Accounting (IPA) Firms for \$16.1 million in audit services.

In November 2006, the DHS-OIG created a Planning and Compliance Division (Division) located in the Office of Administration that is external to its three audit offices. The Division is responsible for managing the issuance of audit policies and procedures and for the quality assurance program, including internal quality control reviews. These reviews, which cover completed and ongoing work, evaluate the audit offices' compliance with *Government Auditing Standards*, DHS-OIG's Audit Manual and internal policies. A Quality Assurance Manager within the Division oversees these IPA-performed reviews.

ENCLOSURE 2

SCOPE AND METHODOLOGY

We tested compliance with the DHS-OIG audit organizations' system of quality control to the extent we considered appropriate. These tests included a review of 5 of 40 audit and attestation reports issued during the period October 1, 2007, through September 30, 2008. We also reviewed the internal quality control reviews performed by DHS-OIG's contracted IPA during this period.

We tested DHS-OIG's monitoring of 3 of 46 engagements performed by IPAs, where the IPAs served as the principal auditor during the period October 1, 2007, through September 30, 2008. During the period, DHS-OIG contracted for the audit of its agency's FY 2007 financial statements.

We visited a field office in Boston, Massachusetts, and the Headquarters offices in Washington, D.C.

We selected the following DHS-OIG-performed engagements for review:

Table 2: Reviewed Engagements Performed by DHS-OIG

Report Number	Report Date	Office	Report Title
OIG-08-06	October 2007	Information Technology	Better Administration of Automated Targeting System Controls Can Further Protect Personally Identifiable Information
OIG-08-23	February 2008	Emergency Management Oversight	Review of FEMA's Use of Proceeds From the Sales of Emergency Housing Units
OIG-08-30	February 2008	Audits	Annual Review of Mission Performance United States Coast Guard (FY 2006)
OIG-08-51	May 2008	Audits	United States Coast Guard's Management of the Marine Casualty Investigations Program
OIG-08-31	March 2008	Information Technology	Letter Report: DHS Needs to Prioritize Its Cyber Assets

We also reviewed DHS-OIG contract monitoring activities for the following engagements:

Table 3: Reviewed Monitoring Files of DHS-OIG for Contracted Engagements

Report Number	Report Date	Office	Report Title
OIG-08-12	November 2007	Audits	Independent Auditors' Report on DHS' FY 2007 Financial Statements
OIG-08-68	June 2008	Information Technology	Information Technology Management Letter for the FEMA Component of the FY 2007 DHS Financial Statement Audit
OIG-08-88	August 2008	Emergency Management Oversight	Hurricane Katrina Temporary Housing Technical Assistance Contracts

ENCLOSURE 3

DHS-OIG RESPONSE

Office of Inspector General

U.S. Department of Homeland Security
Washington, DC 20528



Homeland
Security

June 9, 2009

The Honorable Gordon S. Heddell
Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room 85502
Washington, D.C. 20210

Dear Mr. Heddell:

Thank you for the opportunity to comment on your draft System Review Report on the Department of Homeland Security Office of Inspector General audit organizations. We agree with your conclusion that our system of quality control, in effect for the year ended September 30, 2008, was suitably designed and complied with to provide us with reasonable assurance of performing audits and reporting results in conformity with applicable professional standards in all material respects. We are pleased to receive a peer review rating of *pass*.

We reiterate our commitment to maintaining an effective system of quality controls and to working continuously to improve our operations. We are providing you a separate response to your Letter of Comment, including our concurrence and corrective actions taken or planned to address the findings. We agree that your Letter of Comment discusses findings not considered to be of sufficient significance to affect our peer review rating of *pass*.

We appreciate the thorough manner in which your staff conducted the review and the generosity they displayed when sharing your best practices with our staff.

Should you have any questions, please call me, or your staff may contact Charles Edwards, Assistant Inspector General for Administration, at (202) 254-4200.

Sincerely,

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General