



Federal Deposit Insurance Corporation

3501 Fairfax Drive, Arlington, VA 22226

Office of Inspector General

September 21, 2011

A. Sprightley Ryan
Inspector General
Office of Inspector General
Smithsonian Institution
MRC 524
P.O. Box 37012
Washington, D.C. 20013-7012

Subject: System Review Report on the Smithsonian Institution's Office of Inspector General
Audit Organization

Dear Ms. Ryan:

Enclosed is the final System Review Report of the Smithsonian Institution's Office of Inspector General audit organization, conducted in accordance with *Government Auditing Standards* and guidelines issued by the Council of the Inspectors General on Integrity and Efficiency. We have also enclosed (1) a Letter of Comment containing findings and recommendations that we did not consider to be of sufficient significance to affect our opinion and (2) your response to our findings with your proposed corrective actions. We consider your planned corrective actions to be responsive to our recommendations.

We thank you and your staff for your assistance and cooperation during the conduct of the review.

A handwritten signature in black ink that reads "Jon T. Rymer". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Jon T. Rymer
Inspector General

Enclosures



System Review Report

September 21, 2011

A. Sprightley Ryan, Inspector General
Smithsonian Institution

We have reviewed the system of quality control for the audit organization of the Smithsonian Institution (SI) Office of Inspector General (OIG) in effect for the 15-month period ended March 31, 2011. A system of quality control encompasses the SI OIG's organizational structure and the policies adopted and procedures established to provide the SI OIG with reasonable assurance of conforming with *Government Auditing Standards*, July 2007 Revision, issued by the Comptroller General of the Government Accountability Office. The elements of quality control are described in *Government Auditing Standards*. The SI OIG is responsible for designing a system of quality control and complying with it to provide 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 SI OIG's compliance therewith based on our review.

We conducted our review in accordance with *Government Auditing Standards* and the *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed the SI OIG's personnel and obtained an understanding of the nature of the SI OIG audit organization and the design of the SI 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 SI OIG's system of quality control. The selected engagements represented a reasonable cross-section of the SI OIG's audit organization, with an emphasis on higher-risk engagements. As a standard practice prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with SI 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 SI OIG's audit organization. In addition, we tested compliance with the SI OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the SI 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.

The Enclosure to this report identifies the office that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of the SI OIG, in effect for the 15-month period ended March 31, 2011, has been suitably designed and complied with to provide the SI 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 SI OIG has received a peer review rating of *pass*.

As is customary, we have issued a Letter of Comment, dated September 21, 2011, that sets forth findings and recommendations 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 the SI 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 the SI OIG had controls to ensure the IPAs performed contracted work in accordance with professional standards. Our objective was not to express an opinion and accordingly, we do not express an opinion, on the SI OIG's monitoring of work performed by IPAs. We made one comment related to the SI OIG's monitoring of engagements performed by IPAs in our Letter of Comment dated September 21, 2011.


Jon T. Rymer
Inspector General

Enclosure

SCOPE AND METHODOLOGY

We tested compliance with the SI OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 4 of 14 audit reports and reviews issued during the period January 1, 2010 through March 31, 2011. We also reviewed two internal quality assurance reviews performed by the SI OIG during the same period. In addition, we reviewed the SI OIG's monitoring of an engagement performed by an IPA where the IPA served as the principal auditor during the period January 1, 2010 through March 31, 2011. During the period, the SI OIG contracted for the audits of SI's Fiscal Year 2009 and 2010 financial statements. The SI OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, dated March 2009, was used in the conduct of this review. We conducted our work in the Washington, D.C., office of the SI OIG.

Engagements Performed by the SI OIG That Were Selected for Review

Engagement Type	Report No.	Report Date	Report Title
Desk Review*	C-09-01	01/15/2010	<i>Report on Audit of the Prime Contract Proposal Submitted by SmithGroup, Inc. and Polshek Partnership, LLP for Initial Pricing Under Contract Number F9936KC10003 Modification Numbers 18 and 19</i>
Desk Review*	C-10-01	09/21/2010	<i>Report on Audit of the Prime Contract Proposal Submitted by Freelon Group, Inc. for Initial Pricing Under Contract Number F10CC10067</i>
Performance	A-10-10	11/18/2010	<i>Collections Accessioning at the National Museum of Natural History</i>
Performance	A-10-03-1	02/08/2011	<i>Collections Stewardship of the National Collections at the National Museum of American History – Inventory Controls</i>

* The desk reviews were performed by an SI OIG auditor in the SI OIG's offices without visiting the contractors' offices.

Monitoring Files for a Contracted Engagement That Was Selected for Review

Report Type	Report No.	Report Date	Report Title
IPA*	A-10-11	03/30/2011	<i>Quality Assurance Letter on FY 2010 Financial Statement Audit</i>

*The Quality Assurance Letter is the SI OIG's product associated with its oversight of the IPA-performed engagement producing the following reports: (1) *Audit of the Closing Package Financial Statement Reports*; (2) *Audit of the Statement of Financial Position of the Smithsonian Institution, and the Related Statement of Financial Activity and Cash Flows*; and (3) *Review of compliance with Office of Management and Budget Circular A-133 [Audits of States, Local Governments, and Non-Profit Organizations]*.



Letter of Comment

September 21, 2011

A. Sprightley Ryan, Inspector General
Smithsonian Institution

We have reviewed the system of quality control for the audit organization of the Smithsonian Institution (SI) Office of Inspector General (OIG) that was in effect for the 15-month period ended March 31, 2011 and have issued our System Review Report thereon, dated September 21, 2011, in which the SI OIG audit organization received a rating of *pass*. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. A report with a peer review of *pass* is issued when the review team concludes that the system of quality control for the audit organization has been suitably designed and complied with to provide the OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

The System Review Report should be read in conjunction with the comments in this letter as they were considered in determining our opinion. The findings and recommendations described below were not considered to be of sufficient significance to affect the *pass* rating expressed in the report.

The enclosure to this letter provides the full text of the SI OIG audit organization's response to the draft report. We consider the planned corrective actions to be responsive to our recommendations.

Finding 1. Standards Followed on Desk Reviews

The audit organization could have more fully evaluated the type of engagement and the applicable standards to be followed when it initiated the two desk reviews* included in our sample. It was unclear from our review of the reports and the underlying working papers which standards were followed for the engagements.

Government Auditing Standards (GAS), July 2007 Revision, issued by the Comptroller General of the Government Accountability Office, state the following:

1.18 All audits and attestation engagements begin with objectives, and those objectives determine the type of audit to be performed and the applicable standards to be followed. ...

* The desk reviews were performed by an SI OIG auditor in the SI OIG's offices without visiting the contractors' offices.

1.19 In some audits and attestation engagements, the standards applicable to the specific audit objective will be apparent. ... In cases in which there is a choice between applicable standards, auditors should evaluate users' needs and the auditors' knowledge, skills, and experience in deciding which standards to follow.

The SI OIG's Audit Manual and Quality Control System (Audit Manual), dated May 2008, Chapter 2, *Professional Standards and Types of Audits*, states:

The *Government Auditing Standards*, commonly referred to as generally accepted government auditing standards (GAGAS), ... include standards for an auditor's professional qualifications, the quality of audit effort, the types of audits, and the characteristics of professional and meaningful audit reports. ... All OIG supervisors and auditors are expected to know GAGAS standards and to consistently apply the standards in performing all audit work.

The audit organization performed the two desk reviews in response to requests from SI's contracting office for assistance in pre-award contract negotiations with SI contractors. We were advised by SI OIG staff that the desk reviews were not typical of the work performed by the audit organization. In fact, the two desk reviews in our sample were the only desk reviews that the SI OIG had performed since 2005.

The desk review reports use terms such as "audit" and "review" when describing the engagement. However, we noted that the audit organization had not gone through a formal planning process to determine the type of engagement or the applicable standards to be followed when it initiated the desk reviews. In addition, the reviews were not subject to certain quality assurance procedures applicable to performance audits, such as supervisory review of working papers. An SI staff member who worked on the desk reviews informed us that the current Audit Manual does not address this type of engagement, but that a prior version of the Audit Manual, dated 1999, included policies and procedures for conducting desk reviews. The staff member advised us that the policies and procedures in the 1999 version of the Audit Manual were followed in conducting the desk reviews. This approach may not have been appropriate because the GAS framework for determining the type of engagement and applicable standards has evolved significantly since 1999.

During our review, we spoke with SI's Assistant Inspector General for Audits (AIGA) about the desk reviews and indicated that it was unclear from our review of the reports and the underlying working papers which standards were followed on the two engagements. The AIGA advised us that the audit organization had misclassified the desk reviews as GAS-related work and that the engagements should have been identified and performed as nonaudit services. Audit Manual Chapter 2, *Professional Standards and Types of Audits*, includes policies and procedures covering nonaudit services.

We recognize that the desk review reports were not made public and were distributed only to the requestor and a limited number of individuals with a need to know because the reports contained contractor information that may have been proprietary. In addition, the desk review reports included limitations regarding the scope of work performed, including a statement that

the costs were not reviewed, in all respects, in accordance with GAS. However, there remained a risk that report users could interpret the desk reviews to provide a higher level of assurance than they actually did given their classification as audits.

Recommendation (1): We recommend that the AIGA reiterate to audit organization staff the requirements of GAS 1.18 - 1.19 and Audit Manual Chapter 2, which state that the auditor should determine and document the engagement type and applicable standards to be followed when initiating desk reviews.

Views of Responsible Official: We agree with this recommendation. The AIGA will review with all audit staff the requirements of general GAS standards and the professional standards contained in Chapter 2 of our Audit Manual to ensure that desk reviews and similar nonaudit service engagements are performed in accordance with applicable standards.

Finding 2. Statements of Independence for Referencers

The audit documentation for the two performance audits we sampled did not include Statements of Independence for the assigned independent referencers. GAS 3.07 states that auditors participating on an audit assignment must be free of personal impairments to independence. This includes those who review the work or the report and all others within the audit organization who can directly influence the outcome of the audit. Audit Manual Chapter 5, *Independence*, Procedures for Identifying and Resolving Personal Impairments, references the GAS requirement, stating:

At the time the auditor is assigned to an audit team, the AIC [Auditor-in-Charge] ensures that each team member completes the OIG Auditor Statement of Independence (including those who review the work or the report...).

Furthermore, Audit Manual Chapter 13, *Indexing and Independent Referencing*, Qualifications of Referencer, states:

The AIGA selects the referencer on the basis of his or her independence, objectivity, experience, analytical ability, knowledge of the rules of evidence, and knowledge of the OIG's reporting policies and standards....

The AIGA advised us that the Chapter 5 requirement is intended to include staff assigned as independent referencers.

Recommendation (2): We recommend that the AIGA re-emphasize to audit organization staff the Audit Manual requirement for independent referencers to execute Statements of Independence.

Views of Responsible Official: We agree with this recommendation and will act on it immediately in accordance with our Audit Manual.

Finding 3. Disciplinary Mechanism for Reporting Personal Impairments

The Audit Manual contains comprehensive policies and procedures for identifying and resolving personal, external, and organizational impairments to independence. The manual further provides for taking what is described as “appropriate action” in relation to organizational impairments. However, the manual does not include a disciplinary mechanism to promote compliance with policies and procedures for identifying, reporting, and resolving personal impairments of independence as required by the standards. GAS 3.08 states:

... audit organizations should include as part of their quality control system procedures to identify personal impairments and help ensure compliance with GAS independence requirements. At a minimum, audit organizations should (a) establish policies and procedures to identify, report, and resolve personal impairments to independence ... [and] (d) establish a disciplinary mechanism to promote compliance with the audit organization’s policies and procedures.

While an audit organization can establish procedures regarding the reporting of personal impairment to independence, ultimately, it is the responsibility of the individual auditor to report such circumstances. Failure to disclose impairments could significantly impact compliance with auditing standards and warrants an established disciplinary mechanism consistent with GAS 3.08. Audit guidance addressing a disciplinary mechanism promotes compliance with policies and procedures to identify, report, and resolve personal impairments to independence.

Recommendation (3): We recommend that the AIGA revise the Audit Manual to include a disciplinary mechanism to promote compliance with the audit organization’s policies and procedures for identifying, reporting, and resolving personal impairments of independence.

Views of Responsible Official: We agree with this recommendation and will include the additional disciplinary mechanism in our Audit Manual.

Finding 4. Reviews of Continuing Professional Education Data

The audit organization could benefit from periodic reviews of documentation supporting continuing professional education (CPE) hour data maintained in the audit organization’s Enterprise Resource and Planning System (ERP). The audit organization used the ERP as a management information system to record, track, and report on staff CPE hours. Such reviews would provide the audit organization greater assurance that audit organization staff satisfies GAS CPE requirements.

We tested GAS CPE hour compliance for the 2008-2009 biennial cycle and for the first year of the 2010-2011 biennial cycle. GAS 3.46 states that auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the biennial cycle. We determined that the audit organization staff met the GAS CPE hour requirements for the 2008-2009 cycle. We also determined that one employee was granted an exception from the

80-hour CPE requirement due to aggregated leaves of absence of a type permitted by the standards. At the time, the Quality Control Manager had requested that the circumstances justifying the exception be documented in the employee's CPE file. However, the justification was not prepared, and the Quality Control Manager was not aware of the omission.

In addition, we noted that the ERP erroneously reported that one individual had earned 21.5 CPE hours during the first year of the 2010-2011 biennial cycle, when, in fact, this individual had earned only 17.5 CPE hours. It appeared that this was the result of a data entry error. We brought several other ERP errors to the audit organization's attention that we had discovered through our tests of documentation supporting ERP CPE hour reports.

If not detected in a timely manner, ERP errors could result in audit organization staff not meeting the GAS 80 hour biennial CPE requirement. Under GAS, an auditor's competence is considered to be impaired if CPE hour requirements are not satisfied, and the auditor should not perform audit work until the CPE deficiency is corrected.

Recommendation (4): We recommend that the AIGA require periodic reviews of documentation supporting CPE hour data in the ERP to ensure the data's reliability. Such reviews should be planned to allow for the timely completion of CPEs consistent with GAS requirements (e.g., completion of the documentation review 2 months before the end of each year in the biennial cycle).

Views of Responsible Official: We agree with this recommendation. Our Quality Control Manager will conduct a review of CPE requirements semiannually to ensure that all auditors meet the CPE requirements and maintain supporting documentation and that information entered into ERP is complete, accurate, and timely. We will use a timetable similar to the one stated in the recommendation.

Finding 5. Reporting Whether Audit Results Can be Projected

The two performance audit reports that we reviewed described sampling techniques that were significant to the audit results. Audit organization staff advised us that sampling designs for both reports did not enable projections of the audit results to the non-sampled populations. While the reports appropriately did not include projections of the audit results to the non-sampled population, both reports could have been improved by including a statement affirming that the audit results could not be projected.

GAS 8.13 states:

...when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

The SI OIG Audit Manual includes a detailed audit Quality Control Checklist. Although the checklist includes a question covering some of the requirements of GAS 8.13, the checklist

does not address the requirement pertaining to whether the audit results can be projected to the intended population, when applicable. When the audit methodology does not discuss whether the results of the sample can be projected to the intended population, there is a risk that users of the report may draw improper conclusions about untested transactions and desired limits of assurance related to conclusions on the audit objectives.

Recommendation (5): We recommend that the AIGA (a) include language in performance audit reports about whether results can be projected to the intended population when those reports involve sampling that is significant to the audit's findings, conclusions, or recommendations and (b) expand the Audit Manual's Quality Control Checklist to address whether sampling results can be projected to the intended population.

Views of Responsible Official: We agree with the recommendation and will ensure that our audit report language more explicitly states that our sampling results cannot be projected, when appropriate to do so. We will also expand our Quality Control Checklist to ensure that our audit staff accurately reports sampling results.

Finding 6. Internal Quality Assurance Program Enhancements

The audit organization has established an internal quality assurance program that includes, among other things, comprehensive policies and procedures in the Audit Manual (i.e., Chapter 17, *Monitoring Quality*); periodic reviews of engagements; and a Quality Monitoring Checklist. We reviewed two of the three internal quality assurance review reports issued during the period of review and found that the audit organization can improve the overall program's effectiveness and utility to audit organization management by expanding the Quality Monitoring Checklist and making certain other program enhancements described below.

a. Methodology. The objective of the two quality assurance reviews we selected for review was to determine whether the audit teams complied, in all material respects, with GAS and the Audit Manual. To conclude on the objectives, the Quality Control Manager developed a Quality Monitoring Checklist based upon the SI OIG Audit Manual. Audit Manual Chapter 17, *Procedures*, states:

The QC [Quality Control] Manager should develop a comprehensive checklist for the quality assessment that incorporates best practices in the IG community and use it to identify issues of noncompliance, quality, and other concerns.

The Quality Monitoring Checklist did not include all relevant questions contained in the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*, Appendix E, *Checklist for Review of Performance Audits Performed by the Office of Inspector General*, applicable to performance audit standards. For example, the Quality Monitoring Checklist did not include questions covering all elements of GAS 8.13 and 8.30

that address whether reports include statements on projecting audit results when sampling is significant and whether performance audits are identified as performance audits, respectively.

Recommendation (6): We recommend that the AIGA require the Quality Control Manager to ensure that the Quality Monitoring Checklist be updated to include all relevant questions from the CIGIE peer review guide, Appendix E, *Checklist for Review of Performance Audits Performed by the Office of Inspector General*.

Views of Responsible Official: We agree with this recommendation and will update the Quality Control Checklist to include all questions from the CIGIE peer review guide.

b. Level of assurance. Conclusions on the objective of the quality assurance reviews were expressed in terms of negative versus positive assurance, possibly indicating a lower level of testing in completing each quality monitoring checklist. GAS 3.53 f. provides that the monitoring of quality is an assessment designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. Quality assurance reviews should be planned and performed to provide positive assurance when concluding on the objectives. Audit Manual, Chapter 17, does not address the level of assurance that should be provided on quality assurance review objectives.

Recommendation (7): We recommend that the AIGA revise the Audit Manual to require the Quality Control Manager to plan and perform quality assurance reviews with the intent of providing positive assurance on the review objective.

Views of Responsible Official: We agree with this recommendation. We will give positive assurance when we believe we have done sufficient work to do so.

c. Quality control. Documentation supporting the two quality assurance reviews did not evidence supervisory review of the work performed or indexing and independent referencing of the final reports. The *Quality Standards for Federal Offices of Inspector General*, dated October 2003, address elements of internal quality assurance programs as follows:

V.C.2. The same professional care should be taken with quality assurance reviews as with other OIG efforts, including adequately planning the review, documenting findings, developing supportable recommendations,

The audit organization can achieve greater assurance that the “same professional care” portion of the standard is fully achieved by performing supervisory review, indexing, and independent referencing of quality assurance reviews. The AIGA advised, and we recognize, that the relatively small size of the audit organization poses challenges in addressing the supervisory review and independent referencing quality controls due to potential conflicts of interest. The audit organization may find it beneficial to evaluate options for ensuring the same level of professional care for quality assurance reports, such as engaging an outside entity to perform the work.

Recommendation (8): We recommend that the AIGA evaluate options for ensuring that the same level of professional care is given to quality assurance reports as with other audit organization efforts.

Views of Responsible Official: We agree with the recommendation and will evaluate all available approaches and options to ensure that our quality assurance reports are of the highest professional quality.

d. Soliciting comments. While the AIGA took action to address the findings in the two draft quality assurance reports we reviewed, the Quality Control Manager did not solicit the AIGA's written comments on either of the reports. The *Quality Standards for Federal Offices of Inspector General*, dated October 2003, addresses elements of internal quality assurance programs as follows:

V.C.2. The same professional care should be taken with quality assurance reviews as with other OIG efforts, including... soliciting comments from the supervisor of the activity or unit reviewed.

Chapter 17 of the Audit Manual does not address whether quality assurance review reports should include the AIGA's formal comments and the Quality Control Manager's evaluation of those comments.

Both of the quality assurance review reports that we selected for review contained recommendations. However, as noted earlier, neither report included formal comments from the AIGA. One report, which was issued on March 26, 2010, contained eight observations and eight recommendations. On April 23, 2010, the AIGA issued a memorandum to the Inspector General that included the quality assurance review results, recommendations, corrective actions, and corrective action implementation dates. The AIGA's actions were timely and added value to the quality assurance process.

The second report, which was issued on March 11, 2011, contained one observation and one recommendation. On April 12, 2011, the AIGA emailed this report (along with the following statement) to audit organization staff:

Attached for your information is the quality assurance review of the collections accessioning audit. Insofar as the review was highly complimentary of the quality of the audit work conducted, I offer this as an internal best practice to follow.

In this case, there could have been a clearer indication of agreement/disagreement with the report's recommendation, any alternative corrective action, or corrective action implementation date. The audit organization's quality assurance review reports would be more complete if they contained written comments from the AIGA and the Quality Control Manager's evaluation of those comments.

Recommendation (9): We recommend that the AIGA revise the Audit Manual to require that quality assurance review reports include the written comments (including

agreement/disagreement on findings, conclusions, and recommendations, any alternative corrective actions, and corrective action implementation dates) and the Quality Control Manager's evaluation of those comments.

Views of Responsible Official: We agree with this recommendation. As a small OIG organization, we communicate such findings, conclusions, and recommendations in staff meetings, informal discussions, and e-mails. We acknowledge the importance of formalizing our communications in this area and we will revise our Audit Manual so as to better document the results of our quality assurance reviews and ensure that our corrective actions are understood and completed by our audit staff.

e. Tracking recommendations. The audit organization did not track or follow up on quality assurance review recommendations to ensure that corrective actions were taken. Audit Manual, Chapter 17, does not discuss whether quality assurance review recommendations should be tracked and subject to periodic follow-up testing. The lack of such tracking reduces the assurance that all quality assurance report recommendations will be fully implemented as intended.

Recommendation (10): We recommend that the AIGA revise the Audit Manual to require that quality assurance review report recommendations be tracked and subject to follow-up to help ensure that corrective action is taken.

Views of Responsible Official: We agree with this recommendation and will revise our Audit Manual accordingly.

Finding 7. Indexing and Referencing of the IPA Quality Assurance Letter

The audit organization did not index and reference the annual Independent Public Accountant's (IPA) Quality Assurance Letter that transmits the results of the IPA's audit of SI's annual financial statements. The annual IPA Quality Assurance Letter is a comprehensive 13-page document that is the functional equivalent of a report. The letter includes such things as a negative assurance statement by the audit organization on the IPA's compliance with applicable standards; an overview of the IPA's significant findings; the audit organization's observations on SI's financial management; and the status of prior-year observations, recommendations, and attachments that (1) describe the status of selected SI financial management performance measures, (2) summarize the IPA's opinions and findings, and (3) define the audit organization's scope and methodology. The scope and methodology attachment also states:

We provided KPMG and the CFO with a draft of this report. Based on their comments, we made changes to the report to the extent we deemed appropriate.

Audit Manual Chapter 13, *Indexing and Independent Referencing*, OIG Policy – Indexing, states:

The OIG's reports come under close scrutiny of, and may be challenged by, Smithsonian management or other parties. Indexing keeps us accountable. Indexing also serves to find errors and on occasion insufficient documentation for an audit finding.

All audit reports must be indexed, which means annotating the audit report to identify specific sources of information used to support the content of the report. Before a formal draft report can be approved and sent to Smithsonian management for written comments, everything said in the report must be fully supported and indexed. Final OIG audit reports must be fully indexed and referenced, with all referencing comments resolved, prior to issuance.

Referencing is a key quality control procedure that the OIG will use in each of its audit and attest engagements.

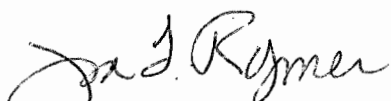
Indexing and independently referencing the quality assurance letter will help attain the quality control objectives outlined in the Audit Manual, Chapter 13.

Recommendation (11): We recommend that the AIGA require that the IPA Quality Assurance letter be indexed and independently referenced as described in Audit Manual, Chapter 13.

Views of Responsible Official: We agree with the recommendation regarding indexing and independent referencing and will do both for the FY 2011 Letter.

In addition to the seven findings presented above, we discussed certain observations with the audit organization and shared best practices information related to the design and implementation of quality control systems. We did not consider these observations and best practices to be sufficiently significant to include in this letter.

We appreciate the courtesy and cooperation extended to our staff in the course of this review. If you have any questions, please contact me at (703) 562-2166 or Allan Sherman, Senior Program Specialist, at (703) 562-6349.



Jon T. Rymer
Inspector General

SMITHSONIAN INSTITUTION OIG AUDIT ORGANIZATION
COMMENTS ON THE DRAFT REPORT

Smithsonian Institution

Office of the Inspector General

September 8, 2011

The Honorable Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive
Arlington, VA 22226

Dear Mr. Rymer:

Thank you for this opportunity to comment on the formal draft report on your peer review of the Smithsonian Institution's Office of Inspector General's (OIG) quality control system over audit operations. We appreciate the work of your staff in providing this independent evaluation.

We are very pleased that the report concluded that the OIG's quality control system is designed to meet the standards established by the Comptroller General of the United States for a federal audit organization and that our Office of Audit complied with these standards during your period of review to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

The following are our responses to your findings and recommendations. We will complete all correctives actions related to your findings and recommendations no later than March 31, 2012.

Finding 1. Standards Followed on Desk Reviews

Recommendation (1): We recommend that the AIGA reiterate to audit organization staff the requirements of GAS 1.18 - 1.19 and Audit Manual Chapter 2, which state that the auditor should determine and document the engagement type and applicable standards to be followed when initiating desk reviews.

We agree with this recommendation. The AIGA will review with all audit staff the requirements of general GAS standards and the professional standards contained in Chapter 2 of our Audit Manual to ensure that desk reviews and similar nonaudit service engagements are performed in accordance with applicable standards.

Finding 2. Statements of Independence for Referencers

Recommendation (2): We recommend that the AIGA re-emphasize to audit organization staff the Audit Manual requirement for independent referencers to execute Statements of Independence.

We agree with this recommendation and will act on it immediately in accordance with our Audit Manual.

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**SMITHSONIAN INSTITUTION OIG AUDIT ORGANIZATION
COMMENTS ON THE DRAFT REPORT**

Finding 3. Disciplinary Mechanism for Reporting Personal Impairments

Recommendation (3): We recommend that the AIGA revise the Audit Manual to include a disciplinary mechanism to promote compliance with the audit organization's policies and procedures for identifying, reporting, and resolving personal impairments of independence.

We agree with this recommendation and will include the additional disciplinary mechanism in our audit manual.

Finding 4. Reviews of Continuing Professional Education Data

Recommendation (4): We recommend that the AIGA require periodic reviews of documentation supporting CPE hour data in the ERP to ensure the data's reliability. Such reviews should be planned to allow for the timely completion of CPEs consistent with GAS requirements (e.g., completion of the documentation review 2 months before the end of each year in the biennial cycle).

We agree with this recommendation. Our Quality Control Manager will conduct a review of CPE requirements semiannually to ensure that all auditors meet the CPE requirements, maintain supporting documentation, and ensure that information entered into ERP is complete, accurate, and timely. We will use a timetable similar to the one stated in the recommendation.

Finding 5. Reporting Whether Audit Results Can be Projected

Recommendation (5): We recommend that the AIGA (a) include language in performance audit reports about whether results can be projected to the intended population when those reports involve sampling that is significant to the audit's findings, conclusions, or recommendations and (b) expand the Audit Manual's Quality Control Checklist to address whether sampling results can be projected to the intended population.

We agree with the recommendation and will ensure that our audit report language more explicitly states that our sampling results cannot be projected, when appropriate to do so. We will also expand our Quality Control Checklist to ensure that our audit staff accurately reports sampling results.

Finding 6. Internal Quality Assurance Program Enhancements

Recommendation (6): We recommend that the AIGA require the Quality Control Manager to ensure that the Quality Monitoring Checklist be updated to include all relevant questions from the CIGIE peer review guide, Appendix E, Checklist for Review of Performance Audits Performed by the Office of Inspector General.

We agree with this recommendation and will update the Quality Control Checklist to include all questions from the CIGIE peer review guide.

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Recommendation (7): We recommend that the AIGA revise the Audit Manual to require the Quality Control Manager to plan and perform quality assurance reviews with the intent of providing positive assurance on the review objective.

We agree with this recommendation. We will give positive assurance when we believe we have done sufficient work to do so.

Recommendation (8): We recommend that the AIGA evaluate options for ensuring that the same level of professional care is given to quality assurance reports as with other audit organization efforts.

We agree with the recommendation and will evaluate all available approaches and options to ensure that our quality assurance reports are of the highest professional quality.

Recommendation (9): We recommend that the AIGA revise the Audit Manual to require that quality assurance review reports include the written comments (including agreement/disagreement on findings, conclusions, and recommendations, any alternative corrective actions, and corrective action implementation dates) and the Quality Control Manager's evaluation of those comments.

We agree with this recommendation. As a small OIG organization, we communicate such findings, conclusions and recommendations in staff meetings, informal discussions, and e-mails. We acknowledge the importance of formalizing our communications in this area and we will revise our Audit Manual so as to better document the results of our quality assurance reviews and ensure that our corrective actions are understood and completed by our audit staff.

Recommendation (10): We recommend that the AIGA revise the Audit Manual to require that quality assurance review report recommendations be tracked and subject to follow-up to help ensure that corrective action is taken.

We agree with this recommendation and will revise our Audit Manual accordingly.

Finding 7. Indexing and Referencing of the IPA Quality Assurance Letter

Recommendation (11): We recommend that the AIGA require that the IPA Quality Assurance letter be indexed and independently referenced as described in Audit Manual, Chapter 13.

We agree with the recommendation regarding indexing and independent referencing and will do both for the FY 2011 Letter.

Very truly yours,



A. Sprightley Ryan
Inspector General