



Office of the
Inspector General

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C.

January 9, 2007

Robert Emmons, Inspector General
Office of Inspector General
Pension Benefit Guaranty Corporation
1200 K Street, N.W. Suite 470
Washington, D.C. 20005

Subject: Report on the External Quality Control Review of the Office of Inspector General for the Pension Benefit Guaranty Corporation

Dear Mr. Emmons:

This report presents the results of our External Quality Control Review of the Office of Inspector General for the Pension Benefit Guaranty Corporation. Your response to the draft report is included as an attachment with excerpts incorporated into the relevant sections of the report.

Our review resulted in an unmodified opinion, also known as a clean audit opinion. This means no material weaknesses were identified and there were no restrictions on the scope of the auditor's work during the review.

We did, however, identify conditions that did not adversely affect our opinion. We agree with your proposed corrective actions to the recommendations. We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review.

If you have any questions, please have your staff contact Tom Cline of my office on (202) 418-7890.

Sincerely,

A handwritten signature in black ink, appearing to read "Kent R. Nilsson".

Kent R. Nilsson
Inspector General

Attachment



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Robert Emmons, Inspector General
Office of Inspector General
Pension Benefit Guaranty Corporation
1200 K Street, N.W. Suite 470
Washington, D.C. 20005

Dear Mr. Emmons:

We have reviewed the system of quality control for the audit function of the Office of Inspector General for the Pension Benefit Guaranty Corporation in effect for the year ended September 30, 2006. A system of quality control encompasses the organizational structure of the Office of Inspector General (OIG) as well as the policies adopted and the procedures established to provide it with reasonable assurance that audits performed, or supervised, by the OIG conform with generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, as 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 the Office of Inspector General for the Pension Benefit Guaranty Corporation (PBGC). Our objective was to determine whether PBGC OIG's internal quality control system was adequate as designed, and whether it provided 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 PBGC OIG's system of quality control. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered necessary and desirable. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based upon a judgmental sample, it would not necessarily disclose all weaknesses in this system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable and sound 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. In addition, any projection of an 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.

Scope and Methodology

As noted above, we tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of two of two audit reports issued during the March 31, 2006 and September 30, 2006 semiannual reporting periods. In addition, we reviewed the financial statement audit and monitoring activities covering the FY 2005 financial statements for Pension Benefit Guaranty Corporation that were performed under contract by Clifton Gunderson LLP.

We visited the Washington, DC office of the OIG during the course of our review.

Audit Reports Reviewed

We reviewed the following audits in testing compliance with the OIG's quality control policies and procedures:

<u>Report Number</u>	<u>Report Date</u>	<u>Report Title</u>
2005-18/2005-19/2005-20	9/29/05	Audits of Morneau Sobeco Contract
2006-PA-0016	2/6/06	Audit of Disability Benefits and Earning Limitations
2006-1/FA-0014-1	11/15/05	Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2005 Financial Statements

Review Results

We observed many positive audit practices in the OIG's audit organization. Most importantly, the OIG's audit staff exhibited a high level of professionalism and expertise. The audit staff displayed a thorough knowledge of government auditing standards during discussions with our evaluation team. In particular, the independent quality review performed by one of your Audit Managers in June, 2006, appears to reflect a well-done quality control process that yielded several insights that were useful to your office and, presumably, the PBGC. In addition, the draft Audit Policies and Procedures Manual that is currently being reviewed for finalization appears to be a great improvement over your current manual and will help ensure the continued quality of the OIG's work.

In our opinion, the system of quality control for the audit function of the PBGC OIG in effect for the year ended September 30, 2006 was 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. In addition, in our opinion, the PBGC OIG complied with this system of quality control during the fiscal year ending September 30, 2006 which, in turn, provided the OIG with reasonable assurance that it was in compliance with applicable auditing standards, policies, and procedures.

We noted, however, conditions that warrant your attention even though they did not adversely affect our opinion. These matters are described in the Findings and Recommendations that follow.

Findings and Recommendations

Finding 1: Consideration of fraud in audit planning not documented.

During our review of the audit of Disability Benefits, we noted that the consideration of fraud during the audit planning process was not documented. Discussions with the audit manager and lead auditor indicated that fraud was considered in the audit planning and was a focus throughout the audit. However, the consideration of fraud in audit planning for performance audits must be documented (see Sections 7.21 and 7.22 of *Government Auditing Standards*, 2003 version).

Recommendation: Please reiterate to your staff the importance of documenting the consideration of fraud during audit planning in the work papers. Additionally, please ensure the Manual of Policies and Procedures, which is currently under revision, provides guidance for this requirement.

Views of Responsible Official. Agree.

Finding 2: The “go/no go” audit planning process was not utilized.

During our review of the Disability Benefits and the Morneau Sobeco contract audits, we noted that the “go/no go” audit planning process was not utilized. Under the “go/no go” process, a series of meetings between the auditors and office management would be convened in which the need to continue the audit is considered before moving on to the next phase of the audit program, is described in Chapter 12 of your current Audit Policies and Procedures Manual. Discussions with your audit manager and the lead auditors for these audits indicated that there were circumstances in both of these audits which would mitigate the need for, and usefulness of, this planning tool. The reviewer agreed with those observations. When discussing the contract audit with your cognizant staff member she noted, however, that “the go/no go process was not in place at the time of this audit.” She seemed to believe it was a new planning process and did not seem to realize that it was in your current manual. Likewise, when we discussed it with your audit manager, she made a similar observation regarding the status of the “go/no go” process and expressed surprise when the reviewer showed it to her in the current manual.

The “go/no go” process was held up to the reviewer as an important tool in planning audits at the entrance conference. We recognize that the current Audit Policies and Procedures Manual is out of date (it is dated August 1990) and we commend you for working to update the manual, but at the present time it is the official manual that should be used in planning and conducting audits (except in cases where it may be so out of date that it is invalid). Comments we received from your staff indicate a lack of familiarity with the current manual.

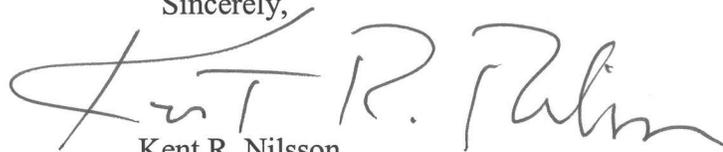
Recommendation: Please reiterate to your staff the importance of following the audit planning guidance in the Audit Policies and Procedures Manual. In addition, please ensure the revised Audit Policies and Procedures Manual, which is currently under revision, provides guidance for this requirement and describes occasions where the “go/no go” planning process may be inappropriate (such as for a contracted audit where the task order did not reflect the process, or an audit for which it is known at the outset will be performed to completion due to other risks/considerations).

Views of Responsible Official. Agree.

I would like to express my appreciation for the cooperation and assistance your staff provided during the course of our review and provide my congratulations on this opinion.

If you have any questions on this matter, please contact Tom Cline of my office on (202) 418-7890. Mr. Cline is the FCC's Assistant Inspector General for Policy Planning and was directly responsible for conducting this review.

Sincerely,

A handwritten signature in black ink that reads "Kent R. Nilsson". The signature is fluid and cursive, with the first name "Kent" being particularly prominent.

Kent R. Nilsson
Inspector General

Attachment



Pension Benefit Guaranty
Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

December 22, 2006

TO: Kent R. Nilsson, Inspector General
Office of Inspector General
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

SUBJECT: Response to the Official Draft Report on External Quality Control Review of the Office of Inspector General for the Pension Benefit Guaranty Corporation

Thank-you for the opportunity to respond to the Official Draft Report on External Quality Control Review. First, let me thank-you and Thomas Cline, for his professionalism in conducting our peer review. Mr. Cline is clearly experienced and knowledgeable in the application of the peer review standards, and was always pleasant in requests for documents, interviews and follow-up clarification communication. We appreciate the FCC's thorough, yet balanced, audit peer review. Secondly, we concur with the findings and recommendations and have taken the appropriate action to correct them as outlined below.

Recommendation: Consideration of fraud in audit planning not documented.

Response: The draft audit manual has been revised to require all audit/survey programs include a fraud audit step.

Recommendation: The "go/no-go" audit planning process was not utilized.

Response: The draft audit manual has been revised to clarify when the go/no-go will and will not be utilized.

If you have questions or need additional information please feel free to contact me directly or you can call the Assistant Inspector General for Audits, Luther L. Atkins at (202) 326-4030, ext. 3928.

Sincerely,

for *Luther L. Atkins*
Robert L. Emmons
Inspector General