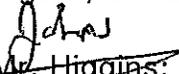




OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

The Honorable John P. Higgins, Jr.
Inspector General
U.S. Department of Education
550 12th Street, SW
Room 8099
Potomac Center Plaza
Washington, DC 20065

Dear  Mr. Higgins:

Enclosed is our report on the External Quality Control Review of your audit organization. Your response to the report is included as Exhibit C.

On behalf of my office, I would like to extend my thanks to your staff for their courtesies and cooperation during our review.

Sincerely,


Harold Damelin
Inspector General

Enclosure



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

September 27, 2006

To the Honorable John P. Higgins, Jr., Inspector General
U.S. Department of Education

We reviewed the system of quality control for the audit function of the U.S. Department of Education, Office of Inspector General (Education OIG) in effect for the year ended March 31, 2006. 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 to generally accepted government auditing standards (GAGAS). The elements of quality control are described in GAGAS, and 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 Education OIG. Our objective was to determine whether the internal quality control system was adequate as designed and complied with to provide 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.

We conducted our review 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 system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Nevertheless, we believe that the procedures we performed provide a reasonable 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. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in condition, or because the degree of compliance with the policies of procedures may deteriorate.

In our opinion, the system of quality control for the audit function of the Education OIG in effect for the year ended March 31, 2006, has been 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 and was complied with during the year then ended to provide the Education OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

Our scope and methodology appears in Exhibit A. We also provide general comments regarding Education OIG in Exhibit B, including two opportunities where Education OIG's audit function could be further strengthened. Management's response to the report is provided in Exhibit C.

Harold Damelin
Inspector General

Peer Review Scope and Methodology

We tested compliance with the Education OIG's system of quality control to the extent we considered appropriate. These tests included a review of 11 performance audit reports issued during April 1, 2005, through March 31, 2006. In addition, we reviewed the monitoring activities covering the audit of fiscal year 2005 and 2004 financial statements for the U.S. Department of Education that was performed under contract by the independent certified public accounting firm of Ernst & Young, LLP. We also reviewed recent internal quality control reviews performed by Education OIG.

OIG Offices Reviewed

We visited Education OIG's Headquarters in Washington, DC, and 3 regional field offices located in Atlanta, GA; Chicago, IL; and New York, NY.

Audit Reports Reviewed

Report Number	Date Issued	Report Title
A02-E0008	6/14/2005	Education Funds Disbursed for New York City Department of Education Telecommunication Services
A02-F0006	9/14/2005	New Jersey Department of Education's Compliance with Title I, Part A, of the ESEA, as amended by the NCLB
A02-E0031	9/14/2005	Wyandanch Union Free School Districts Elementary and Secondary Education Act Title I, Part A and Title II Non-Salary Expenditures for the period July 1, 1999 through June 30, 2004 ¹
A04-F0008	3/30/2006	Florida Agricultural and Mechanical University's Administration of the Student Financial Assistance Programs
A04-E0007	6/7/2005	Georgia Department of Education's Compliance with the Unsafe School Choice Option Provision
A05-E0017	5/24/2005	Special Allowance Payments to New Mexico Educational Assistance Foundation for Loans Funded by Tax-Exempt Obligations
A05-E0028	8/9/2005	Guaranty Agencies Oversight of Federal Family Education Loan Program Loans Disbursed Directly to Borrowers for Attendance at Foreign Schools during the period January 2, 2004 through September 30, 2004
A11-F0003	9/29/2005	Security Review of the Rockville Computer Center- Fiscal Year 2005
A11-F0002	10/6/2005	Review of the US Department of Education's Incident Handling Program and ED Net Security Controls
A17-F0004	11/18/2005	Financial Statement Audits Fiscal Years 2004 and 2005 US Department of Education
A19-F0004	11/4/2005	Audit Follow up Process for Office of Inspector General Internal Audits in the Office of the Chief Financial Officer
A19-F0006	7/1/2005	Controls Over Purchase Card Use in the Office of Vocational and Adult Education

¹ We also reviewed the Quality Assurance Review that was performed by Education OIG on this audit.

General Comments

We observed a number of positive practices by the Education OIG. For example, Education OIG established a Computer Assisted Assessment Techniques (CAAT) division to provide assistance to OIG staff in extracting and analyzing computer data files, developing computer assisted audit techniques, and performing reliability assessments of computer processed data. Education OIG also has an expanded approach to the Federal Information Security Management Act (FISMA). This approach consists of performing a number of audits covering a range of subject areas (incident reporting, vulnerability scanning, and data center reviews). In addition, we noted that Education committed significant resources to ensure the ability to perform highly technical audits. For example, Education OIG has a well-equipped laboratory and equipment dedicated to performing information technology audit functions. Furthermore, Education OIG's auditors demonstrated a high degree of knowledge and skill in their use of electronic workpapers. The audit documentation for the audits we selected was maintained on this system in a manner that greatly facilitated our peer review.

During our review we also identified opportunities where Education OIG can further strengthen its audit function.

Review of Audit Program for Contracted Financial Audit

By policy, Education OIG adopted the Government Accountability Office/President's Council on Integrity and Efficiency (GAO/PCIE) Financial Audit Manual (FAM), Chapter 650, for monitoring and oversight of contracted financial audits. For the level of review Education OIG performs of the contractor's work, FAM 650A requires that the auditor review and retain the contractor's audit program for significant line items, accounts, or application. During our review of the Education OIG's oversight of the audit of the Department of Education's fiscal year 2005 financial statements, we noted that Education OIG reviewed the contractor's audit programs, after the audit procedures were completed. Although FAM 650 does not specify the timing of this review, we believe that the review should take place during the contractor's planning of the audit so as to timely identify any significant deficiencies or inconsistencies in the programs. Timely identification of weaknesses in the contractor's audit program can help ensure that delays in completing the audit are avoided.

Supervisory Review for the Quality Assurance Review Program

Education OIG established a quality assurance review program whereby a cross regional team of auditors is tasked to review selected audits performed by another region under the direction of the Special Assistant to the Inspector General. As of July 31, 2006, 69 audits had been reviewed through this program. We noted that the documentation for the quality assurance reviews (QAR) we tested did not contain evidence of supervisory review. Similar to the work paper review requirements for audits, Education OIG should consider enhancing its quality assurance review program to require supervisory review of QAR work papers.

Management Response



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

SEP 26 2006

Honorable Harold Damelin
Inspector General
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W. Room 4436
Washington, DC 20220

Dear Mr. Damelin:

Thank you for the opportunity to review and respond to the draft report of the external peer review of the Department of Education's Inspector General Audit Organization.

I appreciate your office's efforts in conducting an external peer review of the work of our audit organization. I agree with the overall content of the report, and will instruct the Deputy Inspector General and the Assistant Inspector General for Audit Services to consider the observations noted in the report.

Again, I appreciate the professional manner in which your peer review team conducted the review. The review is very helpful to us as we continually strive to improve the quality of our work.

*Thomas Higgins
for John P. Higgins, Jr.*

John P. Higgins, Jr.
Inspector General