



National Science Foundation • Office of Inspector General
4201 Wilson Boulevard, Arlington, Virginia 22230

September 19, 2017

Mr. Mark Bialek
Inspector General
Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau
20th Street and Constitution Avenue, NW
Washington, DC 20551

Subject: External Peer Review System Review Report on the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau's audit organization

Dear Mr. Bialek:

Enclosed is the System Review Report for the External Peer Review of the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau's audit organization. This review was conducted in accordance with Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.

We appreciate the cooperation and courtesies extended to our staff during the review.

A handwritten signature in black ink, reading "Allison C. Lerner", is positioned above the typed name.

Allison C. Lerner
Inspector General

Enclosure



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System Review Report

September 19, 2017

Mr. Mark Bialek
Inspector General
Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. Bialek:

We have reviewed the system of quality control for the audit organization of the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau (the Board/CFPB OIG) in effect for the year ended March 31, 2017. The Board/CFPB OIG has received an External Peer Review rating of *pass*.

A system of quality control encompasses the Board/CFPB 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 Board/CFPB OIG is responsible for establishing and maintaining a system of quality control that is designed to provide the Board/CFPB OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Board/CFPB OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed the Board/CFPB OIG personnel and obtained an understanding of the nature of the Board/CFPB OIG's audit organization and the design of Board/CFPB OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with the Board/CFPB OIG's system of quality control. The audits selected represented a reasonable cross-section of the Board/CFPB OIG's audit organization, with emphasis on higher-risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with the Board/CFPB 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 Board/CFPB OIG audit organization. In addition, we tested compliance with the Board/CFPB OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Board/CFPB OIG's policies and procedures on selected audits. 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.

In our opinion, the system of quality control for the audit organization of Board/CFPB OIG in effect for the year ended March 31, 2017, has been suitably designed and complied with to provide the Board/CFPB OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The Board/CFPB OIG has received an External Peer Review rating of *pass*.

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 Board/CFPB OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits 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 Board/CFPB 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 Board/CFPB OIG's monitoring of work performed by IPAs.

Enclosure 1 to this report identifies the Board/CFPB OIG office that we visited and the audits that we reviewed. Enclosure 2 includes your response to a draft of this report.

Sincerely,



Allison C. Lerner
Inspector General

Enclosures

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|-----------------------|----------------|---------------|
| cc: Jacqueline Becker | Peter Sheridan | Marie Maguire |
| Melissa Heist | Mark Bell | Karen Scott |

Enclosure 1

Scope and Methodology

We tested compliance with the Board/CFPB OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of three of the nine audit reports issued during the period April 1, 2016, through March 31, 2017. We also reviewed the annual quality assurance reviews issued in 2017, 2016, and 2015, as well as the results for one quality assurance review of an audit in our test sample and one operational quality assurance review.

In addition, we reviewed the Board/CFPB OIG's monitoring of audits performed by Independent Public Accountants (IPAs) where the IPA served as the auditor during the period April 1, 2016, through March 31, 2017. During the period, the Board/CFPB OIG contracted for the audit of the Board of Governors of the Federal Reserve System and the Federal Financial Institutions Examination Council's (FFIEC) fiscal years 2016 and 2015 financial statements. Our review was limited to the monitoring of the IPA's audit of the FFIEC financial statements.

We reviewed the Board/CFPB OIG audit policies and procedures, continuing professional education, and independence documentation. We also interviewed management and staff and completed the following checklists from the CIGIE *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*:

- Appendix A – Policies and Procedures
- Appendix B – Checklist for Review of Adherence to General Standards
- Appendix E – Checklist for Review of Performance Audits Performed by the Office of Inspector General
- Appendix F – Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm
- Appendix G – Optional Audit Staff Questionnaire

We visited the Board/CFPB OIG headquarters in Washington, D.C., from July 10 to July 26, 2017, and reviewed the documentation necessary to complete our testing. Engagements performed by the Board/CFPB OIG and tested in the peer review are listed in Table 1.

Table 1. Engagements Performed by the Board/CFPB OIG and Tested in Peer Review

| Report Number | Report Date | Report Title |
|----------------------|--------------------|---|
| 2016-MO-B-006 | April 15, 2016 | <i>The Board Should Strengthen Controls to Safeguard Embargoed Sensitive Economic Information Provided to News Organizations</i> |
| 2016-FMIC-C-007 | May 2, 2016 | <i>The CFPB's Civil Penalty Fund Is in Compliance With the Improper Payments Information Act of 2002, as Amended</i> |
| 2016-IT-B-013 | November 10, 2016 | <i>2016 Audit of the Board's Information Security Program</i> |
| 2017-FMIC-B-001 | March 1, 2017 | <i>Federal Financial Institutions Examination Council Financial Statements as of and for the Years Ended December 31, 2016 and 2015, and Independent Auditors' Reports</i> |
| 2016-QA-AE-004 | February 2, 2017 | <i>Quality Assurance Review 2016-QA-AE-004: Review of the Office of Audits and Evaluations' and the Office of Information Technology's Compliance With the OIG's Indexing and Referencing Policy and Procedures</i> |
| 2016-QA-AE-006 | April 5, 2017 | <i>Quality Assurance Review 2016-QA-AE-006: OIG Report 2016-FMIC-C-007, The CFPB's Civil Penalty Fund Is in Compliance With the Improper Payments Information Act of 2002, as Amended, May 2, 2016</i> |

Source: NSF OIG

Enclosure 2

The Board/CFPB OIG Response to the Draft Report



OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU
WASHINGTON, DC 20551

September 14, 2017

Ms. Allison C. Lerner
Inspector General
National Science Foundation
4201 Wilson Boulevard
Arlington, VA 22230

Allison
Dear Ms. Lerner:

Thank you for the opportunity to comment on the draft *System Review Report* on the system of quality control in the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau. We agree with your conclusion that our system of quality control has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We are pleased that your independent review of our audit operations resulted in a *pass* rating.

We would like to thank you and your staff for the thorough and professional review.

Sincerely,

Mark Bialek
Inspector General