



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

August 8, 2013

The Honorable Calvin L. Scovel III
Inspector General
U.S. Department of Transportation
1200 New Jersey Avenue, SE
West Building, Seventh Floor
Washington, DC 20590

Dear Mr. Scovel:

We have reviewed the system of quality control for the audit organization of the Department of Transportation Office of Inspector General (DOT OIG) in effect for the year ended September 30, 2012. The system of quality control encompasses DOT OIG's organizational structure and the policies adopted and procedures established to provide it reasonable assurance of conforming with Government Auditing Standards. The elements of quality control are described in Government Auditing Standards. DOT OIG is responsible for designing a system of quality control and complying with it to provide DOT OIG 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 DOT OIG's compliance with its system of quality control.

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 DOT OIG personnel to obtain an understanding of the nature of the DOT OIG audit organization. We also obtained an understanding of the design of the DOT OIG's system of quality control to sufficiently 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 DOT OIG's system of quality control. These engagements represented a reasonable cross section of the DOT OIG's audit organization 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 DOT 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 DOT OIG's audit organization. In addition, we tested compliance with the DOT OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the DOT 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.

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There are inherent limitations in the effectiveness of any system of quality control, and therefore noncompliance with the system of quality control can 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.

Enclosure 1 to this report identifies the DOT OIG engagements that we reviewed.

As is customary, we noted matters that warrant your attention, although they were not considered to be of sufficient significance to affect our opinion expressed in this report. These matters are described in a Letter of Comment.

In addition to reviewing DOT OIG's system of quality control to ensure adherence with the Government Accountability Office "Government Auditing Standards, July 2007 Revision," we applied certain limited procedures in accordance with guidance established by the CIGIE related to DOT OIG's monitoring of engagements performed by independent public accountants (IPAs) under contract where the IPA served as the principal auditor. It should be noted that monitoring of IPA's work is not an audit therefore is not subject to requirements of Government Auditing Standards. The purpose of our limited procedures was to determine whether the DOT OIG had controls to ensure IPAs performed contracted work in accordance with professional standards, rather than expressing an opinion. Accordingly, we do not express an opinion on the DOT OIG's monitoring of work performed by IPAs. Nonetheless, we included our comments on IPA monitoring in a Letter of Comment.

In our opinion, the system of quality control for the audit organization of DOT OIG in effect for the year ended September 30, 2012, has been suitably designed and complied with to provide DOT OIG 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. DOT OIG has received a peer review rating of pass.

Sincerely,



Lynne M. Halbrooks
Acting

Enclosure:
As stated

SCOPE AND METHODOLOGY (Enclosure 1)

We reviewed the system of quality control for the DOT OIG audit organization in effect as of fiscal year ended September 30, 2012, to the extent we considered appropriate. We performed our review from October 2012 through June 2013 in accordance with Generally Accepted Government Auditing Standards (GAGAS) and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The objective of the review was to determine whether the system of quality control for DOT OIG's audit operations was designed in accordance with the quality standards established by the Council of the Inspector General on Integrity and Efficiency. The review also determined whether DOT OIG's audit operations complied with the systems of quality control. Compliance with the systems of quality control should provide DOT OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. As applicable, the peer review also determined whether controls over monitoring of contracted audits performed by Independent Public Accountants (IPA) in which the IPA served as the principal auditor were suitably designed and complied with. To determine adequacy of the quality control system, we compared the DOT OIG Policies and Procedures Manual against GAGAS to determine whether DOT policies and procedures were adequate and sufficient to ensure adherence to the professional standards. We also reviewed reports of quality assurance reviews DOT OIG performed from FY 2010 through FY 2012 as part of its quality control system, which assessed internal controls over DOT OIG audit operations at the organizational level.

To determine adherence to the quality control system, we tested compliance with GAGAS and DOT OIG policies and procedures by DOT OIG auditors and support personnel as appropriate. Based on our risk assessments, we selected 8 of 39 audit and IPA monitoring projects for review from the list of reports that DOT OIG provided as issued during FY 2012. Of the eight projects selected, six were performance audits and two were monitoring services in which an IPA served as the principal auditor. DOT OIG did not perform financial audits during the period reviewed; rather, it transmitted the results of the IPAs audits to fulfill the DOT OIG financial statement audit responsibility. As a result, our review was limited to performance audits and IPA monitoring services, as the table on page 5 shows.

In performing the review, we visited DOT OIG headquarters at 1200 New Jersey Avenue, SE, Washington, DC, and interviewed DOT OIG auditors and support personnel who contributed to the eight projects, as well as personnel involved with the quality assurance reviews. We also examined the audit project documentation and related administrative documents including project files stored electronically in TeamMate, hardcopy, or both if available; personnel data; certificates of independence (COIs); and training records and certificates of continuing professional education (CPE). For compliance with independence standards, we reviewed COIs covering the entire project duration (announcement to final report issuance) for all personnel who charged time to each of the eight projects selected. For CPE compliance, our review covered FY 2011 and FY 2012 for personnel who worked on the eight projects we reviewed. For IPA monitoring projects in which the IPAs served as the principal auditors, we reviewed the

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associated work paper files documenting DOT OIG’s monitoring activities. We believe that the procedures we performed provide a reasonable basis for our opinion.

Projects Reviewed

Project No.	Project Type	Project Owner	Report Title
09U3003A000	Performance Audit	JA-10	ARRA Job Reporting for FAA Programs-Lessons Learned for Improving Accuracy and Transparency for Future Job Reporting, Federal Aviation Administration
10A3005A000	Performance Audit	JA-10	Challenges with Implementing Near-Term NextGen Capabilities at Congested Airports Could Delay Benefits
10U3009C000	Performance Audit	JA-50	FRA Needs to Expand Its Guidance on High-Speed Rail Project Viability Assessments, Federal Railroad Administration
10Z3003Z000	Performance Audit	JA-60	FAA’s Contracting Practices Are Insufficient to Effectively Manage Its Systems Engineering 2020 Contracts
11A3003A000	Performance Audit	JA-10	Hazardous Liquid Pipeline Operators’ Integrity Management Programs Need More Rigorous PHMSA Oversight
11M3001M000	Performance Audit	JA-40	Timely and Targeted FMCSA Action Is Needed to Fully Address National Transportation Safety Board Recommendations for Improving Passenger Carrier Oversight
11F3002F000	IPA Monitoring	JA-20	Quality Control Review of Controls over the Enterprise Service Center
11F3004F000	IPA Monitoring	JA-20	Quality Control Review of Audited Financial Statements for Fiscal Years 2011 and 2010, Federal Aviation Administration



**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

Office of Inspector General
Washington, D.C. 20590

July 17, 2013

Ms. Lynne Halbrooks
Acting Inspector General
U.S. Department of Defense
Office of Inspector General
4800 Mark Center Drive
Alexandria, VA 22350

Dear Ms. Halbrooks:

Thank you for the opportunity to comment on your office's draft System Review Report on the Department of Transportation, Office of Inspector General Peer Review. We are pleased to receive a peer review rating of "pass" and that none of the review's findings affected the reliability of the reports reviewed. We remain committed to maintaining an effective system of quality controls and improving our operations.

Thank you for your peer review team's work, including their sharing of your best practices. If you have any questions, please contact me at (202) 366-6767.

Sincerely,

A handwritten signature in black ink that reads "Ann Calvaresi Barr".

Ann Calvaresi Barr
Deputy Inspector General