



Office of Inspector General United States Department of State

System Review Report

UNCLASSIFIED

September 16, 2022

The Honorable Jay N. Lerner
Inspector General
Federal Deposit Insurance Corporation

The Department of State, Office of Inspector General (State OIG), has reviewed the system of quality control for the audit organization of the Federal Deposit Insurance Corporation, Office of Inspector General (FDIC OIG), in effect for the year ended March 31, 2022. A system of quality control encompasses FDIC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming in all material respects with *Government Auditing Standards* (GAS)¹ and applicable legal and regulatory requirements. The elements of quality control are described in GAS.

In State OIG's opinion, the system of quality control for the audit organization of FDIC OIG in effect for the year ended March 31, 2022, has been suitably designed and complied with to provide FDIC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. FDIC OIG has received an External Peer Review rating of *pass*. FDIC OIG's response to this report is included in Enclosure 2.

Monitoring of Generally Accepted Government Auditing Standards Engagements Performed by Independent Public Accountants

In addition to reviewing FDIC OIG's system of quality control to ensure adherence with GAS, State OIG applied certain limited procedures in accordance with guidance established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE)² related to FDIC OIG's monitoring of engagements conducted in accordance with generally accepted government auditing standards (GAGAS) by Independent Public Accountants (IPA) under contract, for which the IPA served as the

¹ Government Accountability Office, *Government Auditing Standards*, 2018 Revision (GAO-21-368G, Technical Update April 2021).

² The Council of the Inspectors General on Integrity and Efficiency, "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General" (March 2020).

auditor. It should be noted that monitoring GAGAS engagements performed by IPAs is not an audit and therefore is not subject to the requirements of GAS. The purpose of these limited procedures was to determine whether FDIC OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. However, the objective was not to express an opinion; accordingly, State OIG does not express an opinion on FDIC OIG's monitoring of work performed by IPAs.

Letter of Comment

State OIG has issued a letter, dated September 16, 2022, that sets forth findings that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Basis of Opinion

State OIG's review was conducted in accordance with GAS and the CIGIE "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General."³

During the review, State OIG interviewed FDIC OIG personnel and obtained an understanding of the nature of the FDIC OIG audit organization and the design of the FDIC OIG system of quality control sufficient to assess the risks implicit in its audit function. Based on those assessments, State OIG selected GAGAS engagements and administrative files to test for conformity with professional standards and compliance with the FDIC OIG system of quality control. The GAGAS engagements selected represented a reasonable cross section of the FDIC OIG audit organization, with an emphasis on higher risk engagements.

In performing the review, State OIG obtained an understanding of the system of quality control for the FDIC OIG audit organization. In addition, State OIG tested compliance with FDIC OIG's quality control policies and procedures to the extent that it considered appropriate. These tests covered the application of FDIC OIG's policies and procedures on selected GAGAS engagements. State OIG's review was based on selected tests; therefore, the review did not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

Prior to concluding the peer review, State OIG reassessed the adequacy of the scope of the peer review procedures and met with FDIC OIG management to discuss the results of the review. State OIG believes that the procedures it performed provide a reasonable basis for the opinion. Enclosure 1 to this report identifies the GAGAS engagements that were reviewed.

³ The Council of the Inspectors General on Integrity and Efficiency, "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General" (March 2020).

Responsibilities and Limitation

FDIC OIG is responsible for establishing and maintaining a system of quality control designed to provide it with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. State OIG's responsibility is to express an opinion, based on its review, on the design of the system of quality control and FDIC OIG's compliance.

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



Diana R. Shaw

Senior Official Performing the Duties of the Inspector General

Enclosures (2): As stated.

ENCLOSURE 1: SCOPE AND METHODOLOGY

The Department of State, Office of Inspector General (State OIG), tested compliance with the Federal Deposit Insurance Corporation, Office of Inspector General (FDIC OIG), audit organization’s system of quality control to the extent that State OIG considered appropriate. These tests included a review of three of seven engagement reports conducted in accordance with generally accepted government auditing standards (GAGAS) that were issued from October 1, 2020, through March 31, 2022. State OIG also reviewed the internal quality control reviews performed by FDIC OIG.

In addition, State OIG reviewed FDIC OIG’s monitoring of GAGAS engagements performed by Independent Public Accountants (IPA) for which the IPA served as the auditor from October 1, 2020, through March 31, 2022. During this period, FDIC OIG contracted for other GAGAS engagements that were performed in accordance with *Government Auditing Standards*. Tests included a review of one audit conducted by an IPA.

State OIG performed its review remotely using documentation provided by FDIC OIG.

Tables 1 and 2 identify GAGAS engagements performed by FDIC OIG and monitored by FDIC OIG that were selected by State OIG for review.

Table 1: Reviewed GAGAS Engagements Performed by FDIC OIG

Report Number	Report Date	Report Title
AUD-22-002	November 2021	<i>The FDIC’s Compliance under the Digital Accountability and Transparency Act of 2014</i>
AUD-21-003	March 2021	<i>Security of Critical Building Services at FDIC-owned Facilities</i>
AUD-21-002	December 2020	<i>Governance of the FDIC’s Mobile Device Management Solution</i>

Source: Generated by State OIG from data provided by FDIC OIG.

Table 2: Reviewed Monitoring Files of FDIC OIG for Contracted GAGAS Engagements

Report Number	Report Date	Report Title
AUD-22-001	October 2021	<i>The FDIC’s Information Security Program – 2021</i>

Source: Generated by State OIG from data provided by FDIC OIG.

ENCLOSURE 2: FEDERAL DEPOSIT INSURANCE CORPORATION, OFFICE OF INSPECTOR GENERAL, RESPONSE



Federal Deposit Insurance Corporation
Office of Inspector General

September 8, 2022

Diana R. Shaw
Senior Official Performing the Duties of the Inspector General
U.S. Department of State
Office of Inspector General
Office of Audits
1700 N. Moore Street, Suite 700
Arlington, VA 22209

Dear Ms. Shaw,

Thank you for the opportunity to comment on the draft System Review Report and Letter of Comment received on August 30, 2022, concerning the internal quality control system of the Federal Deposit Insurance Corporation Office of Inspector General's (FDIC OIG) Audits, Evaluations, and Cyber (AEC). We value the peer review process and view it as an important facet of an audit organization's quality control efforts.

We are pleased that your independent review resulted in a Pass opinion. The Pass opinion is based on your conclusion that the system of quality control in effect for the 12-month period ending March 31, 2022 was suitably designed and complied with to provide AEC with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

In the draft Letter of Comment, you identified issues and made recommendations that are not considered to be of sufficient significance to affect your peer review rating. We have provided a separate response to your recommendations, including planned actions and estimated completion dates.

We appreciate your efforts in conducting this review. Should you have any questions about our response, please contact me at (703) 562-2035 or Terry L. Gibson, Assistant Inspector General for AEC, at (703) 562-2529.

Sincerely,

A handwritten signature in cursive script that reads "Jay N. Lerner".

Jay N. Lerner
Inspector General

cc: Norman P. Brown, State Department OIG
Terry L. Gibson, FDIC OIG
Gale S. Stone, FDIC OIG