

# Naval Audit Service



## Peer Review Report



### Letter of Comments – Peer Review of the Air Force Audit Agency

**N2005-0062**

**23 September 2005**

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7510  
N2005-NIA000-0022  
23 Sep 05

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR OPERATIONS,  
AIR FORCE AUDIT AGENCY

Subj: **LETTER OF COMMENTS – PEER REVIEW OF THE AIR FORCE AUDIT AGENCY (N2005-0062)**

Ref: (a) Air Force Audit Agency (AFAA)/Naval Audit Service (NAVAUDSVC)  
Memorandum of Understanding of 18 Nov 04  
(b) Secretary of the Navy Instruction 7510.7E, “Department of the Navy Internal Audit”

Encl: (1) Reportable Conditions  
(2) Followup on Department of Defense, Inspector General (DoDIG) “Followup Review of Military Department Audit Agencies Peer Review” of 3 August 2004 (D-2004-6-008)  
(3) Management Response from Air Force Audit Agency to Naval Audit Service Letter of Comments

1. We completed the external Peer Review of the AFAA as provided for in the AFAA/NAVAUDSVC Memorandum of Understanding (reference (a)). We reviewed the AFAA audit function system of quality control in effect for selected audit and non-audit reports issued during the 6 months ending 30 September 2004, and during the 12 months ending 30 September 2004 for a selected quality assurance review. A system of quality control encompasses the AFAA organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming to Generally Accepted Government Auditing Standards (GAGAS). Our objective was to determine whether the internal quality control system was adequate as designed and was complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. We conducted our review in accordance with the guidelines established by the President’s Council on Integrity and Efficiency (PCIE). Our opinion report of 22 September 2005 concluded that the AFAA’s system of quality control met the standards established by the PCIE.

2. 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 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. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the the system of quality control or all instances of lack of compliance with it.

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with it. Nevertheless, we believe that the procedures we performed provided a reasonable basis for our opinion.

3. As a result of our review, we identified reportable conditions regarding aspects of independence, supervision, evidence and audit documentation, quality control, and continuing professional education (CPE) requirements (enclosure (1)).<sup>1</sup> A reportable condition for peer review purposes represents a weakness in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards, and with established auditing policies and procedures. However, the reportable conditions noted did not warrant inclusion in our opinion report because they did not materially impact the audit reports reviewed. We believe management should correct the noted weaknesses to improve the effectiveness of their management control system, and to preclude repeat observations that could adversely affect the organization's ability to comply with applicable standards and established auditing policies and procedures.

4. The Department of Defense, Inspector General's (DoDIG's) "Followup Review of Military Department Audit Agencies Peer Review" (D-2004-6-008) report, dated 3 August 2004, of audit agencies' Fiscal Year (FY) 2002 external peer reviews of each other concluded that the three audit agencies took action to correct the observations made in the FY 2002 Peer Review reports. However, DoDIG said that the audit agencies still needed to continuously monitor their internal quality control systems and seek ways to make improvements, especially for repeat observations. As part of our review, we followed up on the FY 2002 AFAA Peer Review Letter of Comments findings and recommendations.<sup>2</sup> Our results are addressed where applicable in the reportable conditions (enclosure (1)) and in enclosure (2).

5. Your official responses of 16 September 2005 (enclosure (3)) concurred with the Letter of Comments reportable conditions and recommendations, and indicated corrective actions were taken or planned. All recommendations, except Recommendation 7, are open and are subject to monitoring in accordance with reference (b). If the planned corrective actions will take more than 1 year to complete, establish interim dates for the completion of major segments of the planned corrective actions. A written status report on actions taken should be sent to Assistant Auditor General for Installations and Environment Audits, Ms. Joan Hughes, Joan.Hughes@navy.mil, with a copy to the Deputy Director of Policy, at Vicki.McAdams@navy.mil, within 30 days after the target completion date. Please

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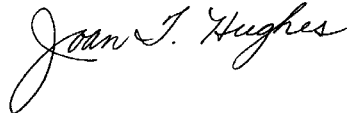
<sup>1</sup> During exit conferences at each AFAA audit site visited, we provided the site managers Point Papers that summarized all issues noted during our on-site reviews as specified in reference (a). The site managers agreed with the conditions noted in each of the point papers, which were included in the reportable conditions enclosure (1). The conditions identified in the Point Papers under the PCIE elements "Reports on Performance Audits" and "Audit Planning" were combined and reported under the Reportable Condition on "Evidence and Audit Documentation."

<sup>2</sup> "Peer Review Of The Air Force Audit Agency" (N2003-0004) report of 21 October 2002.

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submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

6. We express our thanks to you and your staff for your cooperation and professionalism during this review. If you have any questions, please contact Mr. Richard Sansalone, Audit Director at 202-433-5860 or e-mail [Richard.Sansalone@navy.mil](mailto:Richard.Sansalone@navy.mil).

A handwritten signature in cursive script that reads "Joan T. Hughes".

JOAN T. HUGHES  
Assistant Auditor General for  
Installations and Environment Audits

Copy To:  
DoDIG (AIG/APO)

## Enclosure 1:

# Reportable Conditions

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## 1. Independence

The Government Accountability Office (GAO) established Generally Accepted Government Auditing Standards (GAGAS) for conducting financial and performance audits, and attestation engagements. The general standard related to independence is, “In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.” Paragraph 3.04 states that auditors and audit organizations have a responsibility to maintain independence so opinions, conclusions, judgments, and recommendations will be impartial, and will be viewed as impartial by knowledgeable third parties. The Air Force Audit Agency (AFAA) incorporated GAGAS Independence standards in AFAA Instruction (AFAAI) 65-103, “Audit Management and Administration” paragraph 8.4.2, which states, “auditors and audit organizations have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.” It further states, “before performing or assisting on an audit assignment, auditors and supervisors must complete an Independence Statement certifying there are no relationships and beliefs that might cause the auditor or supervisor to limit the extent of the inquiry, limit disclosure, or slant audit findings in any way.” This requirement extends to all auditors associated with the audit, including specialists (e.g., statisticians) and technical experts. In addition, the AFAAI states, “Auditors participating in an audit assignment, including those who review the audit work and resulting report, and all others within the organization who can directly influence the outcome of the audit need to remain free from personnel impairments.” Supervisors should attempt to resolve impairments before granting auditors approval to start the audit.

During our review, we examined policies and procedures, and selected work papers related to independence for the AFAA audit reports, non-audit reports, and the Quality Assurance (QA) Review examined. We determined that the AFAA is organizationally independent because the Air Force Auditor General reports directly to the Secretary of the Air Force. We also found no indications of external or personal impairments to independence for the selected reports reviewed. However, we concluded that as many as 143 independence statements should have been signed (by auditors, project managers, audit managers, team chiefs, office chiefs, specialists, independent referencers, etc.) and placed in the work papers. Of at least 143 statements that should have been signed, we found that only 25 (about 17 percent) were signed by auditors and Audit Managers and placed in the work paper files. Of the 25 signed statements, 22 were approved by the supervisors. By signing an independence statement, the individual acknowledges their independence, impartiality, and objectivity.

Additionally, during our review there was no evidence, in six of the seven reports reviewed, that the independent referencers assigned had identified the weakness with the independence statements not being completed by all personnel working on the assignment. AFAA does not require the referencer to review preliminary items such as independence statements. Also during our review, we noted instances in which audit team members (e.g., Associate Director, Program Manager, Audit Manager, Office Chief, Team Chief, etc.) working on the assignment did not charge time to the audit assignment within the Defense Audit Management Information System (DAMIS). Additionally, the independent referencer is not required to charge hours to jobs they are referencing.

## ***Recommendations***

The AFAA provided management responses (enclosure (3)) to our Letter of Comments. Summaries of their responses to our reportable condition and recommendations, and our comments to their responses follow.

We recommend that:

**Recommendation 1.** AFAA, in accordance with AFAAI 65-103, establish controls to ensure that, before performing or assisting on an audit, all assigned personnel complete, sign, and date independence statements, and that supervisors certify them prior to the individuals starting audit work.

**AFAA response to Recommendation 1.** Concur. We recently revised AFAAI 65-103, paragraph 8.4.2.3 to require that all assigned auditors, supervisors, and specialists sign an independence statement before beginning an audit and updated our independence statement template. The revised template requires office chiefs (for installation-level audits) and associate directors (for centrally directed audits) to sign the independence statement attesting to their independence and certifying that, to the best of their knowledge, staff members assigned to the project are independent. The updated template also contains a section for consultants and specialists to sign, when applicable, attesting to their independence. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 30 September 2005.

**Recommendation 2.** AFAA require all members of the audit team, including the independent referencer, working on audit assignments to charge DAMIS for hours worked on those assignments.

**AFAA response to Recommendation 2.** Concur. We will revise AFAAI 65-103 to require all members of the audit team, including the independent referencer, to charge time spent on the project in DAMIS. The estimated completion date is 31 December 2005.

**Naval Audit Service (NAVAUDSVC) comment on responses to Recommendations 1 and 2.** The planned management actions are responsive to the recommendations.

**Additional AFAA response pertaining to Reportable Condition 1 – Independence:** Partially concur. We agree all audit team members should sign a statement certifying their independence prior to commencing work, and record time in the Defense Audit Management Information System (DAMIS) for time spent on the project. However, we do not require other personnel who review and process reports to sign an independence statement or charge time in DAMIS to specific projects. Other personnel include administrative assistants, headquarters staff auditors, cold readers, etc. At least 58 of the 143 personnel cited in the Letter of Comments were not members of the audit team for the selected projects.

**NAVAUDSVC comment on response to Reportable Condition 1.** Requiring all assigned auditors, supervisors, and specialists to sign a statement certifying their independence meets the intent of the recommendations.

## 2. Supervision

The GAGAS fieldwork standard related to supervision for performance audits is, “Staff are to be properly supervised.” The standard also provides that supervision should be documented. Additionally, AFAAI 65-103, paragraph 6.2.3 provides that audit supervisors should use the AFAA Audit Review Record (Form 104) to document supervisory reviews of working papers for both installation-level and centrally directed audits (CDA). AFAAI 65-101, “Installation-Level Audit Procedures,” paragraph 2.2.2.7 and AFAAI 65-102, CDA, paragraph 2.5.1.2 require that supervisors review and approve the auditor’s program for the audit application phase for both installation-level and CDA audits, respectively. We assessed the AFAA’s compliance with the supervision standard and identified conditions that needed improvement in six of the seven reports reviewed. The following are examples of the conditions noted:

- Supervision was adequately documented at the CDA level. However, at two of the application sites, Kirtland Air Force Base (AFB) and Ramstein Air Base (AB), the designated supervisors did not document supervision on the required Form 104. Supervision was documented by other means; for example, at Kirtland AFB the team chief initialed supporting work papers, and at Ramstein AB the team chief documented supervision through weekly project status reports. However, there was no documentation showing working paper review comments and auditor responses. Additionally, at each location the independent referencer also functioned as a supervisor reviewing the same auditor work papers, resulting in a conflict of interest. (Air and Space Expeditionary Force Readiness Reporting report F2004-0001-FD3000 (Classified))



- Supervision was documented; however, the independent referencer and the quality control (QA) team documented their work on the same Form 104. (Quality Assurance Review report F2004-6004-A1200)
- Supervision was documented at the CDA site; however, it was not thoroughly documented at the Hill AFB and Osan AB audit locations. For example, at Osan AB there was no indication of feedback from the auditor and no “closing of the loop” to indicate final supervisory approval for working papers reviewed. (Air Force Aid Society report F2004-0004-FD4000)
- Supervision was generally documented on the Form 104; however, it was not documented as to the review of the survey program, which included the audit objective and applicable audit steps. (Air Force Common Helicopter Replacement Study report F2004-0003-FD3000)
- Supervision was documented at the CDA level; however, it was documented on multiple documents after the audit was completed and the final audit report was published. Supervision was noted on 20 October 2004 even though the publication date was 7 September 2004. However, changes were administrative in nature and did not impact the evidence supporting findings and recommendations in the final report. (Air Force Contract Debt report F2004-0004-FB1000)
- Supervision, although demonstrated by other means, was not documented on the prescribed Form 104. (Unknown Source of Repair Warner-Robins Air Logistics Center, Robins AFB report F2004-0029-FCR000)

## ***Recommendations***

The AFAA provided management responses (enclosure (3)) to our Letter of Comments. Summaries of their responses to our recommendations and our comments to their responses follow.

We recommend that:

**Recommendation 3.** AFAA, in order to avoid an actual or the appearance of a conflict of interest, restrict the function of the independent referencer to an auditor who is truly independent of the work to be reviewed.

**AFAA response to Recommendation 3.** Concur. During the Peer Review, we revised AFAAIs 65-101 and 65-102. The revised instructions, paragraphs 4.8.2 and 4.9.2, respectively, require that report referencers be independent of the projects they are assigned to reference (i.e., the referencer could not have been associated with the audit project in any way and, whenever possible, the referencer should not be on the same team as the auditor who performed the audit). In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance

reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 30 September 2005.

**Recommendation 4.** AFAA establish controls to ensure supervisors comply with existing AFAA Instruction 65-103.

**AFAA response to Recommendation 4.** Concur. The revised AFAAIs 65-101 and 65-102 now require second-level supervisors (office chiefs and associate directors) to review selected working papers and complete a checklist. Among other things, each checklist includes steps to verify supervisory reviews of the working papers. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 30 September 2005.

**NAVAUDSVC comment on response to Recommendations 3 and 4.**  
The planned management actions are responsive to the recommendations.

### 3. Evidence and Audit Documentation

In the FY 2002 Peer Review of AFAA, a reportable condition addressed Cross-Referencing Audit Reports and recommended that AFAA “re-emphasize the requirement to cross-reference facts and figures in audit reports to supporting source documents, and follow up during quality assurance reviews to ensure audit reports are cross-referenced to supporting source documents.” In the Department of Defense Inspector General’s (DoDIG’s) followup report on the FY 2002 Peer Review, they reported “...AFAA reported in an internal quality control review report... that audit personnel were adequately cross-referencing summary working papers to supporting documentation.” However, DoDIG’s followup review was limited in that they “did not do any testing to determine whether the actions taken by the Military Department audit agencies were effective in improving the internal quality control system of each of the respective agencies.” Our review of AFAA’s six audits and non-audits, and one QA review, showed that improvements were still needed in some aspects of the area of Evidence and Audit Documentation to include cross-referencing issues.

The GAGAS standard related to evidence for performance audits is, “Sufficient, competent, and relevant evidence is to be obtained to provide a reasonable basis for the auditor’s findings and conclusions.” In addition, the GAGAS fieldwork standard related to audit documentation for performance audits is, “Auditors should prepare and maintain audit documentation. Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the auditors’ significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report.” AFAAI 65-103, paragraph 8.6 prescribes the standards of fieldwork for

performance audits. AFAAI 65-101, paragraph 3.7 states that the auditor will prepare a separate working paper to document the data reliability assessment.

We assessed AFAA's compliance with the Evidence and Audit Documentation standard and determined that conditions in four of the seven reports reviewed needed improvement. The following are examples of the conditions noted:

- While the statistical sampling plan, universe, methodology, and criteria were adequately described in an email narrative from the AFAA statistician, this information was not properly documented in the work papers. Based on the audit report, data from a computer-based system was significant to the audit findings; however, there was no work paper to support that the auditors obtained any evidence about the reliability of the computer data. Also, work papers did not always have the required elements (purpose, source, conclusion) and were not always cross-referenced / hyperlinked to supporting details. For example, the survey debrief (go/no go briefing) was not cross-referenced to supporting work papers. Finally, during our review, it came to our attention that some work papers were misplaced, and some may have been mishandled.<sup>3</sup> Our initial review of this matter determined that the work papers in question did not impact the results of our work related to the Peer Review. Thus, we brought the matter to the attention of the Auditor General of the Air Force, and referred the issue to DoDIG<sup>4</sup> for investigation. (F2004-0001-FD3000)
- Some of the work papers reviewed could not be easily traced, without the Audit Manager's assistance, to detailed supporting source documents or a work paper summary that explained the source of the data and the methodology used to arrive at the audit conclusion. The effort was a spin-off of a recently performed CDA. AFAA guidance provides that a planning program, including the planning elements relating to the assessments of internal/management controls and computer-generated data reliability be prepared and updated for information applicable to the new effort, and cross-referenced/hyperlinked to the prior audit results. (F2004-0029-FCR000)
- Some of the work papers reviewed supporting the facts and figures presented in the audit report, and the sampling methodologies used to perform the audit work, were not readily and fully understandable without the Audit Manager's assistance and detailed explanation. Also, there were no supporting work papers documenting the decision to transition from survey to audit (go/no go briefing) as required by AFAA Instruction 65-102 paragraph 2.3.4.2. (F2004-0004-FB1000)
- Audit steps were performed, but were not cross-referenced to the summary and supporting work papers as required by AFAA Instruction 65-103, Chapter 6. (F2004-0003-FD3000)

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<sup>3</sup> AFAA management informed us on 30 March 2005 that when moving the Eglin AFB audit office (a location we did not visit during our peer review), some unclassified work papers were misplaced.

<sup>4</sup> On 15 April 2005, the matter was referred to the DoDIG Hotline Office.

Additionally, we reviewed the automated work files for six of the seven AFAA reports selected for peer review to determine if the work papers were accessed or modified after the publication date, or after we notified AFAA of the reports selected for review. Work papers for five of the six reports reviewed were accessed or modified after the published report date. Also, work papers for two of the five reports were accessed or modified after notification of selection for peer review. However, all the changes appeared administrative in nature and did not materially affect the published reports' contents. Although there was evidence that work papers were accessed or modified after five of the reports were published, there was insufficient evidence to indicate any of the changes materially affected the facts or conclusions in the final reports. For the sixth report, we were unable to make an accurate assessment whether any of the work papers were accessed/modified after the reports were published or after notification was sent. This was because when AFAA was notified that the report was selected for peer review, the Audit Manager consolidated and hyperlinked the files to make them more accessible, and then saved the changes, which changed the electronic file dates. Neither GAGAS nor DoDIG nor AFAA policy prohibited making changes that do not affect report contents after report publication (findings, conclusions, and recommendations).

## ***Recommendations***

The AFAA provided management responses (enclosure (3)) to our Letter of Comments. Summaries of their responses to our recommendations and our comments to their responses follow.

We recommend that:

**Recommendation 5.** AFAA, in accordance with AFAAI 65-103, establish controls to ensure adherence to GAGAS and AFAA policies and procedures for evidence and audit documentation to ensure that work papers are timely and properly prepared, and include the required GAGAS and AFAA elements.

**AFAA response to Recommendation 5.** Concur. The revised AFAAIs 65-101, 65-102, and 65-103 require that our auditors follow GAGAS and AFAA policies and procedures, including those for gathering evidence and preparing working papers. Further, AFAAIs 65-101 and 65-102 now include a requirement for second-level supervisors (office chiefs and associate directors) to review selected working papers and complete a checklist that, among other things, evaluates the adequacy of evidence and audit documentation. In addition, we will revise AFAAI 65-102 clarifying centrally directed audit requirements for documenting sampling methodology. Finally, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 31 December 2005.

**Recommendation 6.** AFAA establish controls to ensure proper cross-referencing of audit documents (e.g. survey program, go/no go briefing, summary work papers, data reliability, etc.) to supporting source documents.

**AFAA response to Recommendation 6.** Concur. The revised AFAAIs 65-101 and 65-102 require second-level supervisors to verify, for selected working papers, that the auditor/audit manager properly cross-referenced from the report to summary working papers and from summary working papers to supporting detail working papers. In addition, HQ AFAA/DO will emphasize this area during FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. Finally, we will ask the curriculum committees for our in-house courses to review the course materials and determine whether opportunities exist to add more training on this topic in AFAA courses. The estimated completion date is 30 September 2005.

**Recommendation 7.** AFAA conduct a Quality Assurance review on cross-referencing, since this is a repeat condition.

**AFAA response to Recommendation 7.** Concur with intent. Instead of conducting a quality assurance review of cross-referencing, HQ AFAA/DO will emphasize cross-referencing in each quality assurance review scheduled for FY 2006. This emphasis, combined with the actions taken in response to Recommendation 6, should adequately address the problem. Closed.

**NAVAUDSVC comment on responses to Recommendations 5-7.**  
The planned management actions are responsive to the recommendations.

## 4. Quality Control

The GAGAS standard related to quality control and assurance is, “Each audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review.” Also, AFAAI 65-103, paragraph 4.2.1.7 states that team chiefs, when submitting a CDA response sheet, must include a statement certifying that the information on the CDA Response Sheet was independently referenced to supporting work papers. In addition, AFAAI 65-101, paragraph 3.3.3 states that team chiefs will review working papers and use the Audit Review Record to record their review comments, questions, and taskings. Paragraph 4.8.2 requires the independent referencer to:

- Prepare the referencer review record to document all comments, questions, and opinions pertaining to the review and utilize the AFAA Audit Review Record or similar locally developed forms for this purpose;

- Trace all figures, dates, direct quotations, statements of fact and auditor assertions to supporting working papers to determine that they are consistent with and supported by the work papers; and,
- Place a certification statement at the bottom of the referencer review record or at the bottom of the independent referencer checklist, stating that the draft report was independently referenced and the audit team has satisfactorily resolved all of the referencer's suggestions and comments. The referencer, auditor, and team chief are required to sign and date the certification statement.

Further, if the audit team makes significant changes to the report after completing independent referencing, the team chief must select an independent person to re-reference the changed or added material. The team chief will determine when to re-reference and what changes in the report need re-referencing. AFAAI 65-102, paragraph 4.13.3.1.6 requires the independent referencer to record referencing notes (all comments, questions, or opinions of the referencer) on the Audit Review Record or a suitable locally developed form. AFAAI 65-101, paragraph 4.8.2.9 states that the independent referencer will prepare the referencer review record, and the auditor will clearly accept, modify, or reject each point on the referencer review record. AFAAI 65-102, paragraph 1.3.3.3 requires program managers to review project working papers and document the results of the review on Audit Review Record. The instructions require the independent referencer and supervisors to document referencing on AFAA Audit Review Record forms; however, they do not state that referencing and documentation of supervision must be performed on the same document.

For each of the audits/reports reviewed, we determined that the AFAA did have quality control procedures in place for assuring that audits are conducted in accordance with GAGAS and AFAA audit policies. An independent referencer was assigned for each audit (with the exception of the F2004-0001-FD3000 audit discussed below), who referenced the report(s) to summary and supporting work papers. However, quality control and assurance improvements were needed, as follows:

- Referencing at Osan AB was incomplete. We noted that the referencer did not document a review of the summary work paper or the CDA response sheet. The referencer did state, in the certification review record, that he reviewed the CDA response, but neither the auditor nor the referencer signed the certification statement. (F2004-0004-FD4000)
- At the CDA level, it was not clearly evident that the independent referencer verified in sufficient detail all draft report figures and facts to the summary and supporting work papers. This occurred because the independent referencer did not annotate (place a mark or initials) in the supporting working papers next to the corroborating evidence. The independent referencers at Kirtland AFB and Ramstein AB also functioned as supervisors on the audit. The Office Chief at Kirtland AFB did not submit a written certification detailing that the CDA response sheet was cross-referenced to the supporting work papers and that the independent referencer had verified the auditor's responses. (F2004-0001-FD3000)



- The independent referencer did not prepare a separate independent referencer review record. Although AFAAI 65-105, Internal Quality Control Program, is silent on which form to use, it was difficult to distinguish among the Program Manager's (PM's), the Chief's, and the independent referencer's comments. Also, there was no referencing certification signed by the referencer, the PM, and the Chief. (F2004-6004-A1200)
- The audit report should have been re-referenced since dollar amounts for the "Potential Monetary Benefits" (PMBs), significantly changed after the client was able to provide additional documentation during the staffing of the report. The original draft report claimed PMBs of \$82.3 million while the final report claimed PMBs of \$21.4 million (a difference of \$60.4 million). However, the work papers supported the final reported PMBs. (F2004-0029-FCR000)
- The referencing certification statement was not signed by the AD or the PM who were responsible for audit supervision. (F2004-0003-FD3000)

We also noted during the review that the independent referencers were not including, on the referencer review record or at the bottom of the independent referencer checklist, the following certification statement: "The subject draft report was independently referenced in accordance with AFAA policy and procedures, and the audit team satisfactorily resolved all of the referencer's suggestions and comments. Source data included in the detail working papers properly support the contents of the draft report." The referencer, auditor, and team chief are required to sign and date this statement.

## ***Recommendations***

The AFAA provided management responses (enclosure (3)) to our Letter of Comments. Summaries of their responses to our recommendations and our comments to their responses follow.

We recommend that:

**Recommendation 8.** AFAA, in accordance with AFAAI 65-103, establish controls to ensure that, when submitting CDA response sheets, team chiefs include signed statements certifying that the information on the CDA response sheet was independently referenced to supporting work papers.

**AFAA response to Recommendation 8.** Concur. We will add steps in the working paper review checklists for (1) office chiefs to verify the team chief signed and submitted a statement to the audit manager certifying the CDA Response Sheets were independently referenced, and (2) associate directors to verify the audit manager received and retained independent referencing certification statements from all application locations. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 30 September 2005.

**Recommendation 9.** AFAA, in accordance with AFAAI 65-101, establish controls to ensure that auditors and referencers sign the certification of referencing statement, which should be verified by the supervisor and require audit reports to be re-referenced when facts and dollar amounts (especially Potential Funds Available for Other Use) are significantly changed.

**AFAA response to Recommendation 9.** Concur. We will add steps in the installation-level working paper review checklist for office chiefs to verify (1) the team chief, auditor, and independent referencer signed the referencing certification statement on the Independent Referencer Review Record; and (2) significant report changes were re-referenced. We will also add similar steps to the CDA working paper review checklist. Further, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this Peer Review result. The estimated completion date is 30 September 2005.

**Recommendation 10.** AFAA require Referencer and QA personnel to use separate and the correct AFAA forms to document their work.

**AFAA response to Recommendation 10.** Concur. We are currently revising AFAAI 65-105 to require internal quality control teams to use the Independent Referencer Review Record to document independent referencing and certify referencing results. The estimated completion date is 30 September 2005.

**NAVAUDSVC comment on response to Recommendations 8-10.**

The planned management actions are responsive to the recommendations.

## 5. Continuing Professional Education (CPE) Documentation

The GAGAS standard related to CPE states, “Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, need to maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor’s professional proficiency to perform audits and/or attestation engagements. At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 should be completed in any 1 year of the 2-year period.” GAO issued the “Interpretation of the Continuing Education and Training Requirements” (April 1991) to assist audit organizations and auditors in using sound professional judgment in applying the qualifications standard. Typically, training is measured in CPE hours. Also, AFAAI 36-107, “Air Force Audit Agency Training Program,” paragraph 11.1 states that individual auditors are responsible for seeking CPE opportunities,



successfully completing CPE programs and activities, and documenting CPE hours completed. Paragraph 11.4 provides guidance in that the amount of CPE credit generally allowed for training programs is a 1-hour credit for each 50 minutes of presentation. Paragraph 11.7 requires each individual and supervisor to document CPE as the training event is accomplished. In addition, paragraph 11.10 requires supervisors to review all evidence of training and certify each employee's CPE accomplishments in the DAMIS Training Module. For college or university courses, 15 hours of credit is allowed for each semester hour, or 10 hours credit for each quarter hour.

In a 5 April 2005 joint meeting, the DoDIG Peer Review Project Manager and the Military Audit Agencies Peer Review Project Managers agreed to accept supervisory certified DD 1556s "Request, Authorization, Agreement, Certification of Training and Reimbursement," as evidence of training completion. AFAA training personnel were able to provide us with sufficient training documentation, in the form of supervisor certified DD 1556s to substantiate auditor attainment of CPE requirements. Thus, based on the DD 1556 documentation provided, we determined that all AFAA auditors included in the statistical sample (see Figure 1, page 13) met the 20/24/80-hour CPE requirements during the 2003-2004 calendar years with the exception of one, who was exempted due to medical reasons.

However, the prior FY 2002 Peer Review report on the AFAA contained recommendations on Staff Qualifications for management to "adhere to GAO guidelines when determining what training hours qualify as CPE" and "establish a reporting system that captures CPE data for the 20-, 24-, and 80-hour requirements for all auditors by reporting period." In DoDIG's followup report on the FY 2002 Peer Review, they concluded that AFAA took corrective action on the recommendations. However, DoDIG's followup review was limited in that they "did not do any testing to determine whether the actions taken by the Military Department audit agencies were effective in improving the internal quality control system of each of the respective agencies." As stated above, AFAA personnel met the 20/24/80-hour CPE requirements. Also, AFAA now tracks training within DAMIS. As part of our followup of the FY 2002 Peer Review, we reviewed DAMIS training documents and noted other conditions that needed improvement as discussed below.

To test the accuracy of the AFAA DAMIS Training Module, we developed a random sample of 112 of 724 AFAA auditors employed during the 2003-2004 calendar years.<sup>5</sup> For the 112 auditors, we compared the training documentation they provided us to AFAA DAMIS training module record information. We found 63 instances in which the auditors provided documentation that was not recorded. We also found 20 instances of records in which supporting documentation was non-existent, and 19 instances in which incorrect CPE hours, based on inaccurately calculated Continuous Learning Point (CLP) and Continuing

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<sup>5</sup> AFAA provided an initial listing of 827 employees, as of 2 Dec 2004, from which we eliminated non-auditors to arrive at a sample population of 729 GS-511 auditors. An additional five employees (non-auditors and employees listed twice) were eliminated leaving a revised sample population of 724 GS-511 auditors.

Education Unit (CEU) hours, were recorded. In addition, we found negative hours and duplicate information recorded.<sup>6</sup>

With the assistance of DoDIG, Quantitative Methods Division,<sup>7</sup> we categorized and statistically projected the number and percentage of AFAA auditors with the discrepancies noted into three measures: DAMIS-Missing Documentation (documentation not recorded), DAMIS-Unsupported Information (documentation non-existent), and DAMIS-Inaccurate Hours (CLP/CEU hours). These measures were treated with equal importance. Based on the statistical sample of 112 AFAA auditors, we calculated the upper error limit associated with a 90-percent one-sided confidence boundary for each of the three measures as shown in Figure 1.

<b>90 Percent One-Sided Upper Error Limits</b>		
<b>Measure</b>	<b>Percentage</b>	<b>Number of Auditors</b>
DAMIS – Missing Documentation	62.23%	451
DAMIS – Unsupported Information	22.57%	163
DAMIS – Inaccurate Hours	21.61%	156

**Figure 1. AFAA auditors with CPE discrepancies.**

The criteria used to evaluate the above results were taken from the PCIE/GAO Financial Audit Manual (FAM), which requires an upper error limit of no more than 5 percent with 90 percent confidence to place high reliance on the control, and an upper error limit of no more than 10 percent to place moderate reliance on the control. An upper error limit above 10 percent with 90 percent confidence indicates that low-to-no reliance should be placed in the control. All three of the calculated upper error limits clearly fall into this last category. Each of these statistical projections constitutes sufficient audit evidence that, using these criteria, low-to-no reliance should be placed on the corresponding AFAA training information in DAMIS when it is used as a control to verify compliance with GAGAS CPE requirements.

As a result, AFAA management cannot rely on the data contained in DAMIS to determine whether auditors meet their CPE requirements.

<sup>6</sup> It appears AFAA management was trying to correct the records by placing a negative number of hours in one column to offset positive hours in another column. This gave the appearance the auditor met the 24-hour requirement whereas the auditor may have been deficient.

<sup>7</sup> The DODIG Quantitative Methods Division provided an analysis and interpretation of our CPE review statistical sampling results.

## **Recommendations**

The AFAA provided management responses (enclosure (3)) to our Letter of Comments. Summaries of their responses to our reportable condition and recommendations, and our comments to their responses follow.

We recommend that:

**Recommendation 11.** AFAA verify DAMIS training module information, for all auditors, to supporting individual auditor training documentation, and correct any inaccuracies (including inaccurate CLPs, CEUs, and duplicate and negative hours) in recorded CPE hours.

**AFAA response to Recommendation 11.** Concur. We will require all AFAA personnel to reconcile DAMIS training module records to supporting documentation. The estimated completion date is 31 December 2005.

**Recommendation 12.** AFAA establish controls to ensure DAMIS training module information remains accurate and up-to-date.

**AFAA response to Recommendation 12.** Concur. After completing the actions discussed in Recommendation 11, we will revise AFAAI 36-107 to require that AFAA personnel annually verify the accuracy and completeness of DAMIS training information. The estimated completion date is 31 December 2005.

**Recommendation 13.** AFAA conduct a Quality Assurance review on DAMIS training module information in FY 2006 after corrections are made, and new controls are in place and operating.

**AFAA response to Recommendation 13.** Concur. HQ AFAA/DO will schedule a functional review of DAMIS training data for the second half of FY 2006. The estimated completion date is 30 September 2006.

**Recommendation 14.** AFAA clarify to AFAA auditors the proper calculation of CLP and CEU hours.

**AFAA response to Recommendation 14.** Concur. We will revise AFAAI 36-107 to clarify the procedure for converting CLP and CEU hours. Also, HQ AFAA/DO will emphasize this area during the FY 2006 functional review and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. Finally, we will ask the curriculum committees for our in-house courses to review the course materials and determine whether opportunities exist to add more training on this topic in AFAA courses. The estimated completion date is 31 December 2005.

**Recommendation 15.** AFAA do not allow negative hour postings to the DAMIS training module.

**AFAA response to Recommendation 15.** Concur. We submitted a change request to the DAMIS contractor so that negative hours are rejected. In addition, HQ AFAA/DO will emphasize this area during the FY 2006 functional review and issue a memorandum to all Agency personnel highlighting this 2005 Peer Review result. The estimated completion date is 30 September 2005.

**NAVAUDSVC comment on response to Recommendations 11-15.**

The planned management actions are responsive to the recommendations.

**Additional AFAA comments pertaining to Reportable Condition 5 – Continuing Professional Education (CPE) Documentation.** Concur. As noted in the finding, all auditors met CPE requirements. The identified instances pertain to CPE hours that exceeded the required hours. AFAA supervisors and auditors will periodically discuss training needs to determine if additional training is needed to meet CPE requirements or to obtain required skills.

**NAVAUDSVC comment on response to Reportable Condition 5.**

The planned management actions are responsive to the recommendations.

**Enclosure 2:**

**Followup on Department of Defense,  
Inspector General (DoDIG) “Followup  
Review of Military Department Audit  
Agencies Peer Review” of 3 August 2004  
(DoDIG 2004-6-008)**

In 2004, DoDIG followed up on the findings and recommendations in the Naval Audit Service’s (NAVAUDSVC’s), Fiscal Year (FY) 2002 Air Force Audit Agency (AFAA) Peer Review report,<sup>8</sup> Letter of Comments. In their followup report, DoDIG concluded that AFAA took action to correct the observations made in the FY 2002 Peer Review report. However, DoDIG said that AFAA still needed to continuously monitor their internal quality-control systems and seek ways to make improvements, especially for repeat observations. As part of our review, we also followed up on the FY 2002 AFAA Peer Review, Letter of Comments. Our results are addressed where applicable in the reportable conditions (enclosure (1)) and in the following paragraphs.

**Finding 1: Staff Qualifications, Continuing Professional Education (CPE) Requirements**

Recommendations were made to AFAA to “adhere to GAO guidelines when determining what training hours qualify as CPE” and “establish a reporting system that captures CPE data for the 20/24/80-hour requirements for all auditors by reporting period.” In DoDIG’s followup review, they reported that, “The AFAA had also conducted an internal quality control review to determine whether the FY 2002 NAS Peer Review observations had been corrected. In a July 8, 2004, report the AFAA stated that its review of training documentation for 30 of 752 assigned auditors disclosed all had met the 20-hour or 80-hour CPE requirements and that the auditors only received CPE credit for allowable training classes.” DoDIG also reported that, “AFAA implemented / identified the Defense Audit Management Information System (DAMIS) training module as the AFAA sole source for agency personnel to: identify desired training; complete and submit the required forms for requested training; and track/certify CPE requirements.” In our opinion, AFAA complied with both recommendations. In our statistical sample of AFAA auditors, we did not note any training hours that did not qualify for CPE. Additionally, AFAA now tracks training within DAMIS. However, we did note inaccuracies in the AFAA DAMIS Training Module that are discussed in the “Continuing Professional Education (CPE) Documentation” reportable condition (see enclosure (1)).

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<sup>8</sup> “Peer Review Of The Air Force Audit Agency” (N2003-0004) report of 21 October 2002.

## **Finding 2: Using Outside Consultants**

A recommendation was made to AFAA to “document the policies and procedures to be followed when hiring outside consultants to perform or assist on audit work.” In DoDIG’s followup review, they reported that “the AFAA added Chapter 20, “Use of Outside Consultants” to AFAA Instruction 65-103, “Audit Management and Administration” dated October 9, 2002. This chapter states that the audit teams will coordinate all decisions to use consultants with Headquarters AFAA and obtain Auditor General approval. In addition, the chapter requires that the audit teams identify the need for technical assistance as early as possible to allow sufficient lead-time to identify and acquire the required skills. Finally, the chapter provided certain requirements for audit teams to follow before they engage a consultant.” In our interviews with AFAA Quality Assurance personnel, they stated that they rarely use the services of consultants. They also stated that if the need arose to contract with individuals to provide guidance in specific areas, AFAA policy requires that prior to engaging a consultant the Centrally Directed Audits team is to determine whether the consultant has the skills to perform the required task. During our process for selecting AFAA reports for peer review, we performed a cursory review of the 1,285 AFAA provided report files and did not find any indications that outside consulting services were used for these projects. Additionally, for the seven judgmentally selected reports peer reviewed, we did not find any instances where AFAA hired outside consultants. In our opinion, AFAA complied with the recommendation by the issuance of AFAAI 65-103, Chapter 20, which established specific policies and procedures for audit teams to follow when using outside consultants.

## **Finding 3: Cross-Referencing Audit Reports**

A recommendation was made to AFAA to “re-emphasize the requirement to cross-reference facts and figures in audit reports to supporting source documents, and follow up during quality assurance reviews to ensure audit reports are cross-referenced to supporting source documents.” In DoDIG’s followup review, they reported that an AFAA internal quality control review report showed that audit personnel were adequately cross-referencing summary working papers to supporting documentation. However, our assessment of AFAA’s compliance with the Evidence and Audit Documentation standard found that conditions still existed that needed improvement, as discussed in the “Evidence and Audit Documentation” reportable condition (see enclosure (1)).

**Enclosure 3:**

# **Management Response from Air Force Audit Agency to Naval Audit Service Letter of Comments**



DEPARTMENT OF THE AIR FORCE  
AIR FORCE AUDIT AGENCY

28 July 2005

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR INSTALLATIONS AND  
ENVIRONMENT AUDITS, NAVAL AUDIT SERVICE  
ATTN: MS. JOAN HUGHES

FROM: HQ AFAA/DO  
1126 Air Force Pentagon  
Washington DC 20330-1126

SUBJECT: Response to 5 July 2005 Draft Opinion Report, Peer Review of the Air Force Audit  
Agency

My staff and I reviewed your draft opinion report pertaining to the 2005 peer review of the Air Force Audit Agency. We concur with your findings and are pleased you concluded our quality control system meets standards established by the President's Council on Integrity and Efficiency and provides reasonable assurance Air Force Audit Agency personnel are complying with professional auditing standards when conducting audits. The report does not contain any information we deem "For Official Use Only."

We express our thanks to the members of the Naval Audit Service staff who conducted this review in a professional and effective manner. Should you have questions, please call me at (703) 696-7764 or have your staff contact Mr. Jim Sommer at (703) 696-7727 or Mr. Len Miceli at (703) 696-7903.

*Michael V. Barbino*  
MICHAEL V. BARBINO  
Assistant Deputy Auditor General

**AIR FORCE AUDIT AGENCY RESPONSE TO  
NAVAL AUDIT SERVICE DRAFT LETTER OF COMMENTS  
PEER REVIEW OF THE AIR FORCE AUDIT AGENCY**

Finding 1 - Independence.

AFAA Comments. Partially concur. We agree all audit team members should sign a statement certifying their independence prior to commencing work, and record time in the Defense Audit Management Information System (DAMIS) for time spent on the project. However, we do not require other personnel who review and process reports to sign an independence statement or charge time in DAMIS to specific projects. Other personnel include administrative assistants, headquarters staff auditors, cold readers, etc. At least 58 of the 143 personnel cited in the letter of comments were not members of the audit team for the selected projects.

Recommendation 1. AFAA, in accordance with AFAAI 65-103, should establish controls to ensure that, before performing or assisting on an audit, all assigned personnel complete, sign, and date independence statements, and supervisors certify them prior to the individuals starting audit work.

AFAA Comments. Concur. We recently revised AFAAI 65-103, paragraph 8.4.2.3., to require that all assigned auditors, supervisors, and specialists sign an independence statement before beginning an audit. Further, we updated our independence statement template in May 2005. The revised template requires office chiefs (for installation-level audits) and associate directors (for centrally directed audits) to sign the independence statement attesting to their independence and certifying that, to the best of their knowledge, staff members assigned to the project are independent. The updated template also contains a section for consultants and specialists to sign, when applicable, attesting to their independence. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 30 September 2005.

Recommendation 2. AFAA should require all members of the audit team, including the independent referencer, working on audit assignments to charge DAMIS for hours worked on those assignments.

AFAA Comments. Concur. We will revise AFAAI 65-103 to require all members of the audit team, including the independent referencer, to charge time spent on the project in DAMIS. Estimated completion date: 31 December 2005.

Finding 2 - Supervision.

AFAA Comments. Concur.

Recommendation 3. AFAA, in order to avoid an actual or the appearance of a conflict of interest, should restrict the function of the independent referencer to an auditor who is truly independent of the work to be reviewed.



AFAA Comments. Concur. During the peer review, we revised AFAAIs 65-101 and 65-102. The revised instructions, paragraphs 4.8.2. and 4.9.2., respectively, require that report referencers be independent of the projects they are assigned to reference (i.e., the referencer could not have been associated with the audit project in any way and, whenever possible, the referencer should not be on the same team as the auditor who performed the audit). In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 30 September 2005.

Recommendation 4. AFAA should establish controls to ensure supervisors comply with AFAAI 65-103.

AFAA Comments. Concur. The revised AFAAIs 65-101 and 65-102 now require second-level supervisors (office chiefs and associate directors) to review selected working papers and complete a checklist. Among other things, each checklist includes steps to verify supervisory reviews of the working papers. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 30 September 2005.

Finding 3 – Evidence and Documentation.

AFAA Comments. Concur.

Recommendation 5. AFAA, in accordance with AFAAI 65-103, should establish controls to ensure adherence to GAGAS and AFAA policies and procedures for evidence and audit documentation to ensure that working papers are timely and properly prepared and include the required GAGAS and AFAA elements.

AFAA Comments. Concur. The revised AFAAIs 65-101, 65-102, and 65-103 require that our auditors follow GAGAS and AFAA policies and procedures, including those for gathering evidence and preparing working papers. Further, AFAAIs 65-101 and 65-102 now include a requirement for second-level supervisors (office chiefs and associate directors) to review selected working papers and complete a checklist which, among other things, evaluates the adequacy of evidence and audit documentation. In addition, we will revise AFAAI 65-102 clarifying centrally directed audit requirements for documenting sampling methodology. Finally, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 31 December 2005.

Recommendation 6. AFAA should establish controls to ensure proper cross-referencing of audit documents (e.g., survey program, go/no go briefing, summary working papers, data reliability, etc.) to supporting source documents.

AFAA Comments. Concur. The revised AFAAIs 65-101 and 65-102 require second-level supervisors to verify, for selected working papers, that the auditor/audit manager properly cross-

referenced from the report to summary working papers and from summary working papers to supporting detail working papers. In addition, HQ AFAA/DO will emphasize this area during FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Finally, we will ask the curriculum committees for our in-house courses to review the course materials and determine whether opportunities exist to add more training on this topic in AFAA courses. Estimated completion date: 30 September 2005.

Recommendation 7. AFAA should conduct a Quality Assurance review on cross-referencing since this is a repeat condition.

AFAA Comments. Concur with intent. Instead of conducting a quality assurance review of cross-referencing, HQ AFAA/DO will emphasize cross-referencing in each quality assurance review scheduled for FY 2006. This emphasis, combined with the actions taken in response to Recommendation 6, should adequately address the problem. CLOSED.

Finding 4 – Quality Control.

AFAA Comments. Concur.

Recommendation 8. AFAA, in accordance with AFAAI 65-103, should establish controls to ensure that, when submitting CDAP response sheets, team chiefs include signed statements certifying that the information on the CDAP Response Sheet was independently referenced to supporting working papers.

AFAA Comments. Concur. We will add steps in the working paper review checklists for (1) office chiefs to verify the team chief signed and submitted a statement to the audit manager certifying the CDAP Response Sheets were independently referenced, and (2) associate directors to verify the audit manager received and retained independent referencing certification statements from all application locations. In addition, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 30 September 2005.

Recommendation 9. AFAA, in accordance with AFAAI 65-101, should establish controls to ensure that (1) auditors and referencers sign and supervisors verify the certification of referencing statement and (2) audit reports are re-referenced when facts and dollar amounts (especially potential funds available for other use) are significantly changed.

AFAA Comments. Concur. We will add steps in the installation-level working paper review checklist for office chiefs to verify (1) the team chief, auditor, and independent referencer signed the referencing certification statement on the Independent Referencer (IR) Review Record; and (2) significant report changes were re-referenced. We will also add similar steps to the CDA working paper review checklist. Further, HQ AFAA/DO will emphasize this area in FY 2006 quality assurance reviews and issue a memorandum to all Agency personnel highlighting this peer review result. Estimated completion date: 30 September 2005.

Recommendation 10. AFAA should require referencers and QA personnel to use separate and correct AFAA forms to document their work.

AFAA Comments. Concur. We are currently revising AFAAI 65-105 to require internal quality control teams to use the IR Review Record to document independent referencing and certify referencing results. Estimated completion date: 30 September 2005.

Finding 5 - Continuing Professional Education (CPE) Documentation

AFAA Comments. Concur. As noted in the finding, all auditors met CPE requirements. The identified instances pertain to CPE hours that exceeded the required hours. AFAA supervisors and auditors will periodically discuss training needs to determine if additional training is needed to meet CPE requirements or to obtain required skills.

Recommendation 11. AFAA should verify DAMIS training module information, for all auditors, to supporting individual auditor training documentation, and correct any inaccuracies (including inaccurate CLPs, CEUs, and duplicate and negative hours) in recorded CPE hours.

AFAA Comments. Concur. We will require all AFAA personnel to reconcile DAMIS training module records to supporting documentation. Estimated completion date: 31 December 2005.

Recommendation 12. AFAA should establish controls to ensure DAMIS training module information remains accurate and up-to-date.

AFAA Comments. Concur. After completing the actions discussed in Recommendation 11, we will revise AFAAI 36-107 to require that AFAA personnel annually verify the accuracy and completeness of DAMIS training information. Estimated completion date: 31 December 2005.

Recommendation 13. AFAA should conduct a quality assurance review on DAMIS training module information in FY 2006 after corrections are made, and new controls are in place and operating.

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Recommendation 14. AFAA should clarify to AFAA auditors the proper calculation of CLP and CEU hours.

AFAA Comments. Concur. We will revise AFAAI 36-107 to clarify the procedure for converting CLP and CEU hours. Also, HQ AFAA/DO will emphasize this area during the FY 2006 functional review and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Finally, we will ask the curriculum committees for our in-house courses to review the course materials and determine whether opportunities exist to add more training on this topic in AFAA courses. Estimated completion date: 31 December 2005.

Recommendation 15. AFAA should not allow negative hour postings in the DAMIS training module.

AFAA Comments. Concur. We submitted a change request to the DAMIS contractor so that negative hours are rejected. In addition, HQ AFAA/DO will emphasize this area during the FY 2006 functional review and issue a memorandum to all Agency personnel highlighting this 2005 peer review result. Estimated completion date: 30 September 2005.