



System Review Report

January 4, 2016

Honorable Jon T. Rymer
Inspector General
U.S. Department of Defense
4800 Mark Center
Alexandria, VA 22350

Dear Mr. Rymer:

We have reviewed the system of quality control for the U.S. Department of Defense Office of Inspector General's (DoD OIG) audit organization in effect for the 3-year period ending March 31, 2015. The current DoD inspector general was appointed in September 2013. A system of quality control encompasses the DoD OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The DoD OIG is responsible for establishing and maintaining a system of quality control that is designed to provide the DoD 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 DoD OIG's compliance therewith based on our review.

We conducted our review in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) and the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed DoD OIG personnel and obtained an understanding of the nature of the DoD OIG audit organization and the design of the DoD OIG's system of quality control to assess the risks implicit in the DoD OIG's audit function. Based on our assessments, we selected audit and attestation engagements, collectively referred to as "audits," and administrative files to test for conforming to professional standards and compliance with the DoD OIG's system of quality control. The audits selected represented a reasonable cross-section of the DoD 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 DoD OIG management to discuss the results of our review. We believe the procedures we used provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the DoD OIG audit organization. In addition, we tested compliance with the DoD OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered application of the DoD OIG's policies and procedures on selected audits. We based our review on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur undetected. 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, except for the deficiencies described below — which the DoD OIG has now mitigated through corrective actions during our review — the system of quality control for the DoD OIG's audit organization in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the DoD 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 DoD OIG has received an external peer review rating of pass.

Enclosure 1 to this report identifies the DoD OIG offices we visited and the audits we reviewed.

We noted the following deficiencies during our review.

Office of Audit – Independent Auditor's Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for Fiscal Year 2012

During the 3-year period April 1, 2012, through March 31, 2015, the Office of Audit conducted 317 audits. We selected and tested 11 of these audits for compliance with the DoD OIG audit organization's system of quality control, including — at the request of the DoD inspector general — the *Independent Auditor's Report on the*

United States Marine Corps Schedule of Current Year Budgetary Activity for Fiscal Year 2012 (Report No. DODIG-2014-028, dated December 20, 2013). We identified two deficiencies in this audit related to the appearance of impairment to independence and the reliability of the sufficiency and appropriateness of audit evidence. We summarize these deficiencies below:

1. **Appearance of Impairment to Independence.** During our review we found no conclusive evidence that an actual impairment to independence existed. However, documentation and statements from DoD OIG management indicated they believed the audit team was biased towards issuing a disclaimer opinion and did not adequately ensure that the independent public accountant (IPA) contracted to conduct the financial statement audit completed all of the work required to support an opinion on the financial statements. Further, audit documentation and statements from the audit team indicated they believed management was biased towards issuing a clean opinion. The team believed this was a result of management's overreliance on the IPA's conclusions and work. In addition, the team suspected that the IPA prematurely and inappropriately disclosed to the Marine Corps that it would not be receiving a disclaimer opinion.

The July 2007 GAGAS revision¹ states that the audit organization and individual auditors must be free from personal, external, and organizational impairments to independence². They must also avoid the appearance of such impairments of independence. Their opinions, findings, conclusions, and judgments must be impartial and viewed as impartial by objective third parties with knowledge of relevant information. In addition, GAGAS states that³ "Auditors participating on an audit assignment must be free from personal impairments to independence... . This includes those who review the work or the report, and all others within the audit organization who can directly influence the outcome of the audit... . Personal impairments of auditors result from relationships or beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way." GAGAS also states that "Examples of personal impairments of individual auditors include, but are not limited to preconceived ideas towards individuals, groups, organizations, or objectives of a particular program that could bias the audit."⁴

¹ Revised GAGAS standards governed this audit. The 2011 revision was effective for financial audits and attestation engagements for periods ending on or after December 15, 2012. The Marine Corps audit was for the financial statement period ended September 30, 2012.

² GAGAS Sections 3.02 and 3.03, revised July 2007.

³ GAGAS Section 3.07, revised July 2007.

⁴ GAGAS Section 3.07e, revised July 2007.

The perceived biases of management and the audit team created the appearance of an impairment to independence and an environment that was not conducive to maintaining the objectivity needed to perform the audit. Therefore, communications between management and the team were impacted, which affected the objectivity of the various parties in ensuring sufficient, relevant, and competent audit evidence was obtained to support the audit conclusions. Although both the audit team and management agreed that biases existed on the project, neither agreed that its own independence was impaired. As a result, sufficient actions were not taken to mitigate bias concerns.⁵ A Government Accountability Office (GAO) report⁶ on this audit recommended that DoD OIG management develop and document a quality assurance (QA) process for elevating disagreements between the audit team and DoD OIG management to ensure appropriate, objective resolution of disagreements. The DoD OIG agreed with this recommendation.

Corrective Actions: In response to the GAO report, the DoD OIG took corrective actions during our review to establish a QA process for elevating disagreements between the audit team and DoD OIG management to ensure appropriate, objective resolution of disagreements. The DoD OIG's revised audit handbook dated November 6, 2015, documents this process and should correct the deficiency identified during this peer review.

Views of Responsible DoD OIG Official - Agree.

2. Reliability of the Sufficiency and Appropriateness of Audit Evidence.

The GAO⁷ and the DoD OIG's Quality Assurance Division (QAD)⁸ reported that the DoD OIG did not obtain sufficient, appropriate audit evidence to support the audit opinion on the Marine Corps' FY 2012 Schedule of Budgetary Activity. Specifically, the GAO found the DoD OIG did not (1) perform sufficient procedures to determine the completeness of transactions reported on the Marine Corps' FY 2012 General Fund Schedule, (2) perform sufficient procedures to determine the reliability of certain evidence used to support transactions in the Marine Corps' Schedule, (3) perform sufficient

⁵ While we did not identify any independence issues in the other reports we reviewed, independence concerns were raised in the media regarding a report titled, *Release of Department of Defense Information to the Media* (Report No. DODIG-2013-092, dated June 14, 2013), sometimes referred to as the *Zero Dark Thirty* report. We did not review this report because it was not an audit report, therefore, was outside the scope of our peer review.

⁶ *DOD Financial Management: Actions are Needed on Audit Issues Related to the Marine Corps' 2012 Schedule of Budgetary Activity* (GAO-15-198, dated July 2015).

⁷ *DOD Financial Management: Actions are Needed on Audit Issues Related to the Marine Corps' 2012 Schedule of Budgetary Activity* (GAO-15-198, dated July 2015).

⁸ *Quality Review of Report No. DoDIG-2014-028, Independent Auditor's Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for FY 2012* (QAS-2015-001, dated May 29, 2015).

procedures to determine whether budget activity was recorded in the proper period and whether shipment obligations were properly recorded, and (4) properly consider and evaluate the audit evidence in concluding and reporting on the result of the audit. In addition, the DoD OIG QAD review found the audit team did not adequately test the completeness of computer-processed data (financial data) and did not adequately evaluate the reasonableness of a Marine Corps estimate used as evidence to value a significant account.

The July 2007 GAGAS revision states that “Under the American Institute of Certified Public Accountants (AICPA) standards and GAGAS, auditors must plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level that is, in their professional judgment, appropriate for expressing an opinion on the financial statements. The high, but not absolute, level of assurance that is intended to be obtained by auditors is expressed in the auditor’s report as obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud).”

In response to the GAO report, DoD OIG management agreed with the three recommendations directed toward it, but generally disagreed with the findings that the DoD OIG did not perform sufficient procedures under professional standards and, consequently, did not obtain sufficient, appropriate audit evidence to support its audit opinion. Management stated they believed the DoD OIG’s report was supported when it was issued on December 20, 2013, and that the organization appropriately used professional judgment when applying audit standards and related guidance.

Had the team performed sufficient audit procedures in the key areas of concern identified in the July 2015 GAO and May 2015 DoD OIG QAD reports, it may have identified additional misstatements that, when aggregated with already identified misstatements, could have been material to the Marine Corps’ FY 2012 General Fund Schedule.

Corrective Actions:

On March 23, 2015, the DoD OIG withdrew the *Independent Auditor’s Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for FY 2012* (Report No. DODIG-2014-028), due to subsequently discovered facts identified during the FY 2014 audit and stated their opinion should not be relied upon.

Also, in response to recommendations identified in the draft GAO report, management stated that facts identified in the audit of the Marine Corps' FY 2014 Schedule raised questions about the completeness of information on which they based their 2012 opinion. Further, beginning with the audit of the Marine Corps' FY 2014 Schedule, the DoD OIG revised its use of IPAs to audit financial statements. Specifically, the IPA rather than the DoD OIG will be responsible for issuing financial statement opinions. This change reduces the risk to DoD OIG by placing responsibility for the opinion on the IPA. These actions are responsive to our observations and should correct the deficiency identified during this peer review.

Views of Responsible DoD OIG Official – Agree.

Office of Intelligence and Special Program Assessments (ISPA)

Separate from the Office of Audit, ISPA conducted 13 intelligence-related audits during the 3-year period of April 1, 2012, through March 31, 2015. The ISPA office has three divisions (Audit, Evaluations, and Sensitive Activities) and uses a separate handbook for conducting audits and evaluations. We selected and tested two of these audits and identified deficiencies in ISPA's compliance with its system of quality control. Specifically, our review of the *Assessment of Continental United States Based Nuclear Response Task Force Programs* (Report No. DODIG-2014-019, dated December 3, 2013) and the *Review of DoD Requirements for Nuclear Gravity Weapon Delivery Parameters* (Report No. DODIG-2014-031, dated January 14, 2014) identified deficiencies related to inadequate planning, supervision, documentation, and continuing professional education. We have summarized these deficiencies below:

3. **Inadequate Planning, Supervision, Documentation, and Continuing Professional Education.** Both ISPA audits⁹ we reviewed used the unmodified GAGAS compliance statement even though the audits did not fully comply with GAGAS. Specifically:

Inadequate Audit Planning. Neither of the ISPA audits we reviewed contained evidence of adequate audit planning. Specifically, they both lacked documentation of many required GAGAS planning steps, including consideration of the work of others, identifying investigations and legal proceedings, assessing fraud risk and abuse, identifying relevant laws and

⁹ *Assessment of Continental United States Based Nuclear Response Task Force Programs* (Report No. DODIG-2014-019, dated December 3, 2013) and *Review of DoD Requirements for Nuclear Gravity Weapon Delivery Parameters* (Report No. DODIG-2014-031, dated January 14, 2014).

regulations, and identifying corrective actions on previous audits. According to ISPA officials, the team completed the required planning steps for both projects, but was not aware they had to document it all in the workpapers.

GAGAS states that “Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.”¹⁰ In addition, “Auditors must plan the audit to reduce audit risk to an appropriate level for auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions.”¹¹ The following are some of the steps required as part of planning: using the work of others,¹² avoiding interference with ongoing investigations and legal proceedings,¹³ assessing fraud risk and abuse,¹⁴ assessing internal controls,¹⁵ identifying relevant laws and regulations,¹⁶ and identifying corrective actions from previous relevant audits.¹⁷

Proper planning is required to reduce audit risk to an appropriate level to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions.

Inadequate Supervisory Review. We did not find sufficient documented evidence of appropriate supervision throughout the two ISPA audits we reviewed. Specifically, both audits had a significant number of workpapers in the audit project file that showed no evidence of supervisory review and there was no evidence of debrief meetings that the team stated it held with supervisors. In addition, there were minimal coaching notes from the supervisor in TeamMate^{®18} and minimal supervisor-level comments on the draft and final reports. Further, the audit programs were not signed by the deputy assistant inspector general (DAIG) until after fieldwork began and the audit guide for one audit¹⁹ was not updated to eliminate steps not performed during the audit. Lastly, we identified a classified “Secret” document in one of the TeamMate files that was unrelated to the audit

¹⁰ GAGAS Section 6.06, revised December 2011.

¹¹ GAGAS Section 6.07, revised December 2011.

¹² GAGAS Section 6.40, revised December 2011.

¹³ GAGAS Section 6.35, revised December 2011.

¹⁴ GAGAS Section 6.30 and 6.33, revised December 2011.

¹⁵ GAGAS Section 6.16, revised December 2011.

¹⁶ GAGAS Section 6.28, revised December 2011.

¹⁷ GAGAS Section 6.36, revised December 2011.

¹⁸ A Windows-based audit management system that provides electronic project management for all aspects of the audit project process, including workpaper preparation, review, report generation, and storage.

¹⁹ *Audit of Continental United States Based Nuclear Response Task Force Programs* (Report No. DODIG-2014-019, dated December 3, 2013).

project. If there had been proper supervision, this document would not have been in the TeamMate project file and those without a need to know would not have seen nor had access to it.

ISPA officials consistently mentioned their inexperience with TeamMate as the overall reason for the issues we identified and said they only reviewed workpapers used to support the audit report. In addition, supervisors stated they provided verbal coaching notes in lieu of documenting them in TeamMate. ISPA officials also indicated they were unaware that the fieldwork guide needed to be signed prior to beginning fieldwork.

GAGAS states that "Audit supervisors or those designated to supervise auditors must properly supervise audit staff."²⁰ In addition, "Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing work performed, and providing effective on-the-job training."²¹ The ISPA handbook²² states that the project manager or project/team leader should ensure the team prepares records of entrance and exit conferences, in-process reviews, and debriefs to ISPA management. In addition, the DAIG is required to sign the audit guide before the verification (fieldwork) phase begins.²³ Also, significant changes to the program guide should be documented and approved by the project manager and DAIG.²⁴

Without proper supervision, teams may not address audit objectives or follow GAGAS standards and management may be unaware of significant problems with the project.

Inadequate Audit Documentation. We did not find adequate audit documentation to allow full understanding of the nature, timing, extent, and results of audit procedures performed on the two ISPA audits. While the planning document and report describe the audit methodology used for one ISPA report²⁵ we reviewed, the workpapers did not document the methodology, procedure steps or analysis the auditors used to reach their

²⁰ GAGAS Section 6.53, revised December 2011.

²¹ GAGAS Section 6.54, revised December 2011.

²² *ISPA Handbook*, Fourth edition, June 2012, Chapter 3-1, page 81.

²³ *ISPA Handbook*, Fourth edition, June 2012, Chapter 2-4, Page 70.

²⁴ *ISPA Handbook*, Fourth edition, June 2012, Chapter 1-4, Pages 24-25, "Quality Control Checklist" item #20.

²⁵ *Review of DoD Requirements for Nuclear Gravity Weapon Delivery Parameters* (Report No. DODIG-2014-031, dated January 14, 2014).

conclusions. In addition, the audit project file did not document an assessment of the sufficiency and appropriateness of evidence. In a second ISPA audit,²⁶ the auditors did not document the complete audit process in a reasonable form and content before report issuance. For example, the audit team did not document its findings, other than in the audit report, and did not evaluate the expected significance of evidence to the audit objectives, findings, and conclusions and the level of audit risk.

The ISPA project manager stated the audit project files were not organized properly²⁷ and agreed that an experienced auditor would have difficulty understanding the process from beginning to end based on the project files. In addition, one of the audit teams²⁸ stated that its members were new users of TeamMate and believed they only needed to address those steps necessary to directly support the audit report. Both audit teams stated that they conducted project briefings but did not document them.

GAGAS states that “Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained... that supports the auditors’ significant judgments and conclusions.”²⁹ GAGAS also states that “Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives... . Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions.”³⁰ In addition, “Auditors should evaluate...the level of audit risk.”³¹

Without documenting an assessment of the overall evidence used to support the findings, conclusions, and recommendations, a reasonable auditor cannot determine if the sufficiency and appropriateness of the

²⁶ *Audit of Continental United States Based Nuclear Response Task Force Programs* (Report No. DODIG-2014-019, dated December 3, 2013).

²⁷ *Review of DoD Requirements for Nuclear Gravity Weapon Delivery Parameters* (Report No. DODIG-2014-031, dated January 14, 2014).

²⁸ *Assessment of Continental United States Based Nuclear Response Task Force Programs* (Report No. DODIG-2014-019, dated December 3, 2013).

²⁹ GAGAS Section 6.79, revised December 2011.

³⁰ GAGAS Section 6.69, revised December 2011.

³¹ GAGAS Section 6.71, revised December 2011.

audit work was properly considered. Without consideration, audits may not meet the planned objectives or may not provide proper support for the findings, conclusions, and recommendations in accordance with GAGAS.

Inadequate Continuing Professional Education (CPE). Five individuals (the director, manager, and three staff members) who worked on the two ISPA audits we reviewed did not have sufficient evidence that they met GAGAS CPE requirements for the 2-year period ending September 30, 2014.

The manager stated that he did not believe that he or his team members had to meet CPE requirements because they are not General Schedule (GS) 511 series auditors.

“Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor... should complete 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period).”³² “The term “auditor” throughout GAGAS includes individuals who may be titled auditor, analyst, evaluator, inspector, or who may have a similar position.”³³

“At their discretion, audit organizations may give auditors who have not completed the required number of CPE hours for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency. Any CPE hours completed toward a deficiency in one period should be documented in the CPE records and may not be counted toward the requirements for the next 2-year period. Audit organizations that grant the 2-month grace period should not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS audits or attestation engagements until those requirements are satisfied.”³⁴

³² GAGAS Section 3.76, revised December 2011.


³³ *Guidance on GAGAS Requirements for Continuing Professional Education*, page 5, number 6.

³⁴ *Guidance on GAGAS Requirements for Continuing Professional Education*, page 10, number 14.

Corrective Actions: The DoD OIG took corrective actions to address the deficiencies our peer review identified by requiring all DoD OIG audits to be performed under the supervision of the Office of Audit. Specifically, on October 13, 2015, the DoD OIG consolidated its authority to perform and report on audits in accordance with GAGAS into the Office of Audit and withdrew ISPA's authority to perform and report on GAGAS audits. This memorandum also specifies that ISPA staff working on audits under the supervision of the Office of Audit must comply with GAGAS CPE standards. In addition, DoD OIG management issued errata memorandums³⁵ for both reports eliminating the unmodified GAGAS statement and removing the citation that the work was conducted under GAGAS.

Views of Responsible DoD OIG Official - Agree.

Sincerely,



David C. Williams
Inspector General

Enclosures

³⁵ DoD OIG *Audit Handbook*, Chapter 4.7, allows the audit team to correct errors in a published final report through an errata memorandum. An errata memorandum specifically details changes made to the report by page number and paragraph.

Scope and Methodology

We tested compliance with the DoD OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 13 of 330 audit reports issued during the period April 1, 2012, through March 31, 2015, and semiannual reporting periods. Specifically, we reviewed 11 of 317 audit reports³⁶ from the Office of Audit and two of 13 audit reports³⁷ from ISPA. We also reviewed a DoD OIG internal quality control project.

In addition, we reviewed the DoD OIG's monitoring of audits performed by IPAs during the period April 1, 2012, through March 31, 2015, where the IPA served as the auditor. During this period, the DoD OIG contracted financial statement and certain other audits that were to be performed in accordance with *Government Auditing Standards*.

Independence issues came to our attention regarding *The Release of Department of Defense Information to the Media* (Report No. DODIG-2013-092, dated June 14, 2013); however, we did not include this report in our scope because it was not conducted under GAGAS.

In addition, we assessed corrective actions taken during the course of our review in response to the recommendations in the GAO report,³⁸ as well as the issues identified during our peer review.

We visited the DoD OIG office in Alexandria, VA, and interviewed various team members and management personnel regarding the audits reviewed.

³⁶ Independence issues came to our attention regarding the *Independent Auditor's Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for FY 2012* (Report No. DODIG-2014-028, dated December 20, 2013). As a result, we expanded the scope period to include the review of this report.

³⁷ Two ISPA reports came to our attention during our review through the U.S. Postal Service Office of Inspector General Hotline. The DoD IG requested that we include these reports in our review. As a result, we included the review of these two reports.

³⁸ *DOD Financial Management: Actions are Needed on Audit Issues Related to the Marine Corps' 2012 Schedule of Budgetary Activity* (GAO-15-198, dated July 2015).

DoD OIG Audits Selected for Review

	Report Title	Report Date	Report Number
1	<i>DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013</i>	4/15/2014	DODIG-2014-059
2	<i>Delinquent Medical Service Accounts at Brooke Army Medical Center Need Additional Management Oversight</i>	8/13/2014	DODIG-2014-101
3	<i>Improvements Needed in Contract Award of Mi-17 Cockpit Modification Task Order</i>	9/19/2014	DODIG-2014-118
4	<i>Fort Knox and the Army Need To Improve Internal Controls for Utility Energy Services Contracts</i>	9/8/2014	DODIG-2014-107
5	<i>Improvement Needed for Inventory Management Practices on the T700 Technical, Engineering, and Logistical Services and Supplies Contract</i>	12/10/2014	DODIG-2015-050
6	<i>U.S. Military Academy, West Point, Controls Over Gift Funds Need Improvements</i>	1/14/2015	DODIG-2015-066
7	<i>Independent Auditor's Report on the Attestation of the Existence, Completeness, Rights and Obligations, and Presentation and Disclosure of the Department of the Navy's Afloat Ordnance</i>	10/2/2014	DODIG-2015-003
8	<i>Audit of the Transfer of DoD Service Treatment Records to the Department of Veterans Affairs</i>	7/31/2014	DODIG-2014-097
9	<i>Independent Auditor's Report on the United States Marine Corps Schedule of Current Year Budgetary Activity for FY 2012</i>	12/20/2013	DODIG-2014-028
10	<i>Assessment of Continental United States Based Nuclear Response Task Force Programs</i>	12/3/2013	DODIG-2014-019
11	<i>Review of DoD Requirements for Nuclear Gravity Weapon Delivery Parameters</i>	1/14/2014	DODIG-2014-031

DoD OIG Monitoring Files for Contracted Audits

	Report Title	Report Date	Report Number
12	<i>Independent Auditor's Report on the DoD Medicare Eligible Retiree Health Care Fund FY 2014 and FY 2013 Basic Financial Statements</i>	11/7/2014	DODIG-2015-019
13	<i>Independent Auditor's Report on the Defense Health Agency Contract Resource Management FY 2014 Basic Financial Statements</i>	11/7/2014	DODIG-2015-018

QA Project Selected for Review

	Report Title	Report Date	Report Number
14	<i>Quality Review of Audit of Safeguards Implemented to Deter Insider Threats to Protected Health Information Project</i>	4/1/2014	QA-2014-06



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22304-1500

DEC 22 2015

The Honorable David C. Williams
Inspector General
United States Postal Service
1735 N Lynn Street
Arlington, VA 22209

Dear Mr. Williams,

This is in reply to your draft report on the external quality control review of the Department of Defense Office of the Inspector General Audit organization which we received on November 23, 2015. We appreciate the in-depth review that your staff performed on our quality control system. We also appreciate the quality and the professionalism of the peer review team and their assistance to our organization.

Thank you for the opportunity to review the draft report. We agree with the peer review findings, recommendations, "pass" rating, and concur with the report as written. Therefore we have no comments to the draft report.

If you have any questions or concerns as you prepare your final report, please contact Ms. Amy Frontz, Acting Deputy Inspector General for Auditing at (703) 604-8905.

A handwritten signature in black ink that reads "Jon T. Rymer".

Jon T. Rymer



January 4, 2016

Honorable Jon T. Rymer
Inspector General
U.S. Department of Defense
4800 Mark Center
Alexandria, VA 22350

Dear Mr. Rymer:

We have reviewed the system of quality controls for the U.S. Department of Defense Office of Inspector General's (DoD OIG) audit organization in effect for the year ended March 31, 2015, and have issued our report dated December 30, 2015, which gives the DoD OIG a rating of pass. We identified deficiencies during our review, which the DoD OIG corrected prior to our issuing the aforementioned report. The report should be read in conjunction with the comments in this letter, which we considered when making our determination. We did not consider the findings described below to be of sufficient significance to affect the opinions expressed in the report.

Finding 1. Audit Risk Assessment

We identified errors in one¹ of the 13 audit reports we examined that limited the reliability of the planning process. We attributed these errors to an oversight by the project manager and the team.

The audit risk assessment did not outline or provide a methodology for assessing audit risk. Generally Accepted Government Auditing Standards (GAGAS) state that "Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit; therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed."²

¹ *Fort Knox and the Army Need to Improve Internal Controls for Utility Energy Services Contracts* (Report No. DODIG-2014-107, dated September 8, 2014).

² GAGAS Section 6.07, revised December 2011.

The audit project manager stated that team members documented the audit risk assessment step within the first 90 days, but recognized they should have later updated this step with additional detail. If auditors do not assess audit risk to an appropriate level, it is difficult to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions.

Recommendation - The DoD OIG should remind auditors of their responsibility to assess audit risk during the planning process and to document their risk assessment and any changes to the assessment that occur during the audit.

Views of Responsible DoD OIG Official - Agree. The acting Deputy Inspector General for Auditing reminded staff on December 9, 2015, of their responsibilities with regard to assessing and documenting audit risk. The Assistant Inspectors General will be responsible for ensuring that their respective audit teams comply with these requirements.

Finding 2. Fraud Risk Assessment

We identified errors in one of the 13 audit reports we examined that limited the reliability of the planning process³. We attributed these errors to a lack of understanding of the audit organization's policies and procedures designed to assure compliance with GAGAS. We summarize the issue below:

The supporting workpapers did not show evidence of a fraud risk assessment. The team stated they "observed documentation and agency practices during site visits to determine whether there is any risk due to fraud that is significant within the context of the audit objectives." The step did not include further details regarding this assessment.

GAGAS states that "In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Audit team members should discuss among the team fraud risks. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions."⁴

The project director stated that the team already knew fraud occurred within the audited area when starting the audit. She explained there was a fraud case associated with the project in litigation during the audit and the team did not want to put anything in the supporting workpapers that might negatively impact the case. However, even if there was known fraud on the project, the team should have conducted and documented a risk assessment because other types of fraud could still occur. Not assessing fraud risk could impact the audit objectives, scope, methodology, findings, and conclusions.

³ *Fort Knox and the Army Need to Improve Internal Controls for Utility Energy Services Contracts*, (Report No. DODIG-2014-107, dated September 8, 2014).

⁴ GAGAS Section 6.30, revised December 2011.

Recommendation - The DoD OIG should remind auditors of their responsibility to assess fraud risk during the planning process and document their risk assessment and any changes to the assessment that may occur during the audit.

Views of Responsible DoD OIG Official - Agree. On December 9, 2015, the acting Deputy Inspector General for Auditing reminded auditors of the GAGAS requirement for assessing and documenting fraud risk. The Assistant Inspectors General will be responsible for ensuring that their respective audit teams comply with these requirements.

Finding 3. Continuing Professional Education (CPE) Records

We analyzed CPE records for 37 individuals who worked on the audit projects or audit quality assurance projects we reviewed. Seven individuals (19 percent) had inaccurate records because they incorrectly recorded CPEs; however, all individuals from the Office of Audit met GAGAS CPE requirements. We identified issues including duplicate recording of courses, incorrect recording of CPEs, and improperly claiming CPEs for agency administrative courses.

GAGAS states that "Meeting CPE requirements is primarily the responsibility of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed."⁵ DoD OIG policy states that "Employees are responsible for ensuring that sufficient documentation of training received is provided to their training coordinator or AO (administrative officer) within 10 days of receiving the course completion certificate or notification. Completed training will be documented in the Defense Automated Management Information System (DAMIS) training module. The Office of the Deputy Inspector General for Auditing (ODIG-AUD) training coordinator or AO will retain copies of the supporting documents."⁶

DoD OIG training coordinators are responsible for processing training requests after they have project managers' approval. They are to match the course title of the certificate to the course title in the training system and verify CPEs on the certificate when the training is complete. There were several reasons for the inaccurate records. In one case, the DAMIS course library had incorrect hours listed for a course and the employee used this entry. In other cases we attributed mistakes to training coordinator oversights. The DoD OIG has taken corrective action during the course of this review and corrected the records of these seven employees.

Recommendation - The DoD OIG should provide additional guidance to training coordinators for verifying training records against supporting documentation.

⁵ GAGAS Section 3.78, revised December 2011.

⁶ *Administrative & Personnel Handbook: Third Edition*, Chapter 2.4, "Documenting Training," Page 32, June 28, 2012.

Views of Responsible DoD OIG Official - Agree. On December 11, 2015, the acting Deputy Inspector General for Auditing issued employee and training coordinator CPE and training certificate responsibilities. This information will be added to the DoD OIG's Administrative and Personnel Handbook.

Sincerely,

A handwritten signature in blue ink that reads "David Williams".

David C. Williams
Inspector General

Enclosure



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

DEC 22 2015

The Honorable David C. Williams
Inspector General
United States Postal Service
1735 N Lynn Street
Arlington, VA 22209

Dear Mr. Williams,

This is in reply to your draft comments letter and report on the external quality control review of the Department of Defense Office of the Inspector General Audit organization which we received on November 23, 2015. We appreciate the in-depth review that your staff performed on our quality control system. We also appreciate the quality and the professionalism of the peer review team and their assistance to our organization.

The audit suggestions will further enhance our ability to maintain full compliance with government auditing standards. We have already fully addressed the conditions that the audit team noted during their review. Our comments to the draft letter of comment are enclosed.

If you have any questions or comments, please contact Ms. Amy Frontz, Acting Deputy Inspector General for Auditing at (703) 604-8905.

A handwritten signature in cursive script that reads "Jon T. Rymer".

Jon T. Rymer

Enclosure:
As stated

Finding 1. Audit Risk Assessment

Recommendation -The DoD OIG should remind auditors of their responsibility to assess audit risk during the planning process and to document their risk assessment and any changes to the assessment that occur during the audit.

DoD OIG Response

We agree that assessing audit risk is an integral part of the audit process. The Acting Deputy Inspector General for Auditing sent out an email to all staff on December 9, 2015 reminding auditors of their responsibilities with regard to assessing and documenting audit risk. The Assistant Inspectors General will be responsible for ensuring that their respective audit teams comply with these requirements.

Finding 2. Fraud Risk Assessment

Recommendation -The DoD OIG should remind auditors of their responsibility to assess fraud risk during the planning process and document their risk assessment and any changes to the assessment that may occur during the audit.

DoD OIG Response

We agree. The Acting Deputy Inspector General for Auditing sent out an email to all staff on December 9, 2015 reminding auditors of the GAGAS requirement for assessing and documenting fraud risk. The Assistant Inspectors General will be responsible for ensuring that their respective audit teams comply with these requirements.

Finding 3. Continuing Professional Education (CPE) Records

Recommendation -The DoD OIG should provide additional guidance to training coordinators for verifying training records against supporting documentation.

DoD OIG Response

We agree. The Acting Deputy Inspector General for Auditing sent out an email to all staff on December 11, 2015 outlining both employee and training coordinator responsibilities. The email listed the following as one of the training coordinator responsibilities:

- Verifying that the training certificates and CPEs claimed match the training application form authorizing the training. If applicable, they should also verify that the certificate matches the course title and the hours cited in the DAMIS training base. Any mismatches between the certificates submitted or CPEs claimed are to be resolved with the employee before the training coordinator posts completion certificates and CPEs to the individual's IDP.

This information will be added to the Administrative and Personnel Handbook.