

Inspector General

United States
Department of Defense



Oversight Review

September 23, 2011

Quality Control Review of Naval Audit Service's
Special Access Program Audits

Report No. D-2011-6-012

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Acronyms and Abbreviations

NAS	Naval Audit Service
SAP	Special Access Programs
GAGAS	Generally Accepted Government Auditing Standards



INSPECTOR GENERAL
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SEP 23 2011

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Quality Control Review of Naval Audit Service's Special Access
Program Audits (Report No. D-2011-6-012)

We are providing this report for your information and use. We reviewed the Naval Audit Service's (NAS) system of quality control over Special Access Programs (SAP) audits for the two years ended September 30, 2010. The generally accepted government auditing standards (GAGAS) requires that an audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every three years by reviewers independent of the audit organization being reviewed. As the organization that has audit policy and oversight responsibilities for audits in the DOD, we conducted the external quality control review of the NAS SAP audits in conjunction with the Air Force Audit Agency's review of the NAS non-SAP audits.

An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance of meeting the objectives of quality control. We tested the NAS SAP system of quality control for audits to the extent considered appropriate.

In our opinion, the system of quality control for the audit function of NAS SAP in effect for the period ended September 30, 2010, was designed in accordance with quality standards established by GAGAS. Further, the internal quality control system was operating effectively to provide reasonable assurance that SAP audit personnel were following established policies, procedures, and applicable auditing standards. Accordingly, we are issuing a pass opinion on your SAP audit quality control system for the review period ended September 30, 2010.

Appendix A contains comments, observations where NAS can improve its quality control system. Appendix B contains the scope and methodology of the review. We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) or Carolyn.Davis@dodig.mil.

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the typed name.

Randolph R. Stone, SES
Deputy Inspector General
Policy and Oversight

Appendix A. Comments, Observations, and Recommendation

We are issuing a pass opinion because we determined that the NAS quality control system is adequately designed and functioning as prescribed. We identified one area of concern related to quality control. We judgmentally tested the reports for compliance with GAGAS and NAS audit policies in nine areas to include independence, professional judgment, competence, audit planning, supervision, evidence, audit documentation, reporting, and quality control.

Quality Control

We identified that for one audit reviewed the working papers did not include a referencing guide sheet that is part of the quality control procedures outlined in the Naval Audit Service Handbook. GAGAS 3.50a (2007 Revision) states that each audit organization performing audits or attestation engagements in accordance with GAGAS must establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. GAGAS 3.51 requires that an audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.

Naval Audit Service Handbook, Chapter 5, Section 511, 4(b), dated December 2010, states that the referencer will electronically complete the mandatory referencing guide sheet. Previous versions of the NAS Handbook to include one dated November 2008 also contained the requirement for a mandatory referencing guide sheet. The guide sheet notes specific issues the referencer must consider throughout the report, and also lists a number of key issues the referencer must consider regarding the working paper. While this section of the NAS Handbook refers specifically to electronic working papers, the NAS Special Audit Division had prepared working papers in hard copy documentation. The hard copy documentation for one audit report reviewed, dated July 2009, did not include the mandatory referencing guide sheet as the NAS Handbook requires. Although, the referencer either did not complete the mandatory referencing guide sheet or did not document it in the audit documentation, the items that the referencer was required to check was included in the audit documentation.

Recommendation: We recommend that the Auditor General of the Navy issue a memorandum to remind all SAP audit personnel the importance of complying with established audit guidance relating to quality control for documenting the referencing guide sheet in both electronic and hard copy audit documentation.

Management Comments: Naval Audit Service's Assistant Auditor General, Plans, Policy and Resources Management concurred with the recommendation and stated that an all-hands e-mail will be sent to the staff reminding them of the importance of complying with established guidelines for documenting independent referencing, including retaining the referencing guide sheet in the audit documentation.

Reviewer Response: Management comments are responsive. The Naval Audit Service's Auditor General sent an all-hands e-mail dated September 21, 2011. The e-mail reminds auditors performing special access program audits that all ongoing and future audits must comply with established quality control guidelines for documenting independent referencing, including retaining the referencing guide sheet in the official hardcopy or electronic audit documentation.

Appendix B. Scope and Methodology

We limited our review to the adequacy of NAS SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected two SAP audits from a universe of five SAP audit reports issued by NAS SAP auditors during FY 2009 and FY 2010. We tested each audit for compliance with the NAS system of quality control. The Air Force Audit Agency conducted a review of the NAS internal quality control system for non-SAP audits and/or attestation engagements and will issue a separate report. The Deputy Inspector General for Policy and Oversight will issue an overall opinion report on the NAS internal quality control system that will include the combined results of the SAP and non-SAP audit reviews.

In performing our review, we considered the requirements of quality control standards contained in the 2007 Revision of GAGAS issued by the Comptroller General of the United States GAGAS 3.56 states:

The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We conducted this review in accordance with standards and guidelines established in the March 2009 Council of the Inspectors General on Integrity and Efficiency "Guide for Conducting External Peer Reviews of Audit Organizations of the Federal Offices of Inspector General," and the Quality Standards for Inspection and Evaluation. The Air Force Audit Agency used this guide for review of the non-SAP audits at the NAS. We reviewed audit documentation, interviewed NAS auditors, and reviewed NAS internal audit policies. We reviewed the DOD OIG Report No. D-2009-6-001, "Quality Control Review of the Naval Audit Service's Special Access Program Audits" dated October 9, 2008. We performed this review from June to August 2011 at one NAS office.

We used the following criteria to select the audits under review:

- Worked backward starting with the FY 2010 audits in order to review the most current quality assurance procedure in place.
- Avoided audits with multiple SAPs associated with the audit for ease of access.
- Avoided audits that have the same or similar titles to ensure review of multiple types of projects.

The following table identifies the specific reports reviewed.

Report Number	Date	Title
N2010-0056	September 15, 2010	Use and Control of Military Interdepartmental Purchase Request (MIPR) Funds at Classified Activities
N2009-0042	July 31, 2009	Funds Usages for Department of Navy (DON) Integrated Fire Control (IFC) Developments

Limitations of Review. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Department of the Navy-Naval Audit Service Comments



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8 Sep 11

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
(ASSISTANT INSPECTOR GENERAL FOR AUDIT
POLICY AND OVERSIGHT)

Subj: **RESPONSE TO DEPARTMENT OF DEFENSE INSPECTOR GENERAL
DRAFT QUALITY CONTROL REVIEW REPORT ON NAVAL AUDIT
SERVICE'S SPECIAL ACCESS PROGRAM**

Ref: (a) Memorandum for the Auditor General, Department of the Navy – Quality
Control Review of Naval Audit Service's Special Access Program Audits
(Project No. D2011-DIP0AI-0118.000), dated 23 Aug 2011

Encl: (1) Department of Defense Inspector General (Assistant Inspector General for
Audit Policy and Oversight) Recommendation and Naval Audit Service
Response

1. We have reviewed your report on our Special Access Program audits (reference (a)), and are pleased the Department of Defense Inspector General has provided us with a rating of Pass on our audit quality control system for the review period ended 30 September 2010. Enclosure (1) contains our response to the recommendation made in the report.
2. If you have any questions, or would like additional information, please contact Ms. Vicki McAdams, Director of Policy and Oversight, at vicki.mcadams@navy.mil or (202) 433-5854.

A handwritten signature in cursive script, reading "Samuel E. Chason", is positioned above the typed name.

SAMUEL CHASON
Assistant Auditor General
Plans, Policy and Resources Management

**Department of Defense Inspector General (Assistant
Inspector General for Audit Policy and Oversight)
Recommendation and Naval Audit Service Response**

Naval Audit Service Overall Comment

We are pleased to receive a rating of Pass on our Special Access Program audit quality control system for the review period ended 30 September 2010. We have evaluated the report and concur with the recommendation.

Naval Audit Service Response to Recommendation

Recommendation 1. We recommend that the Auditor General of the Navy issue a memorandum to remind all SAP audit personnel the importance of complying with established audit guidance relating to quality control for documenting the referencing guide sheet in both electronic and hard copy audit documentation.

Naval Audit Service Response. Concur. An All-Hands e-mail will be sent to the staff reminding them of the importance of complying with established guidelines for documenting independent referencing, including retaining the referencing guide sheet in the audit documentation.

Enclosure (1)



Inspector General Department of Defense

