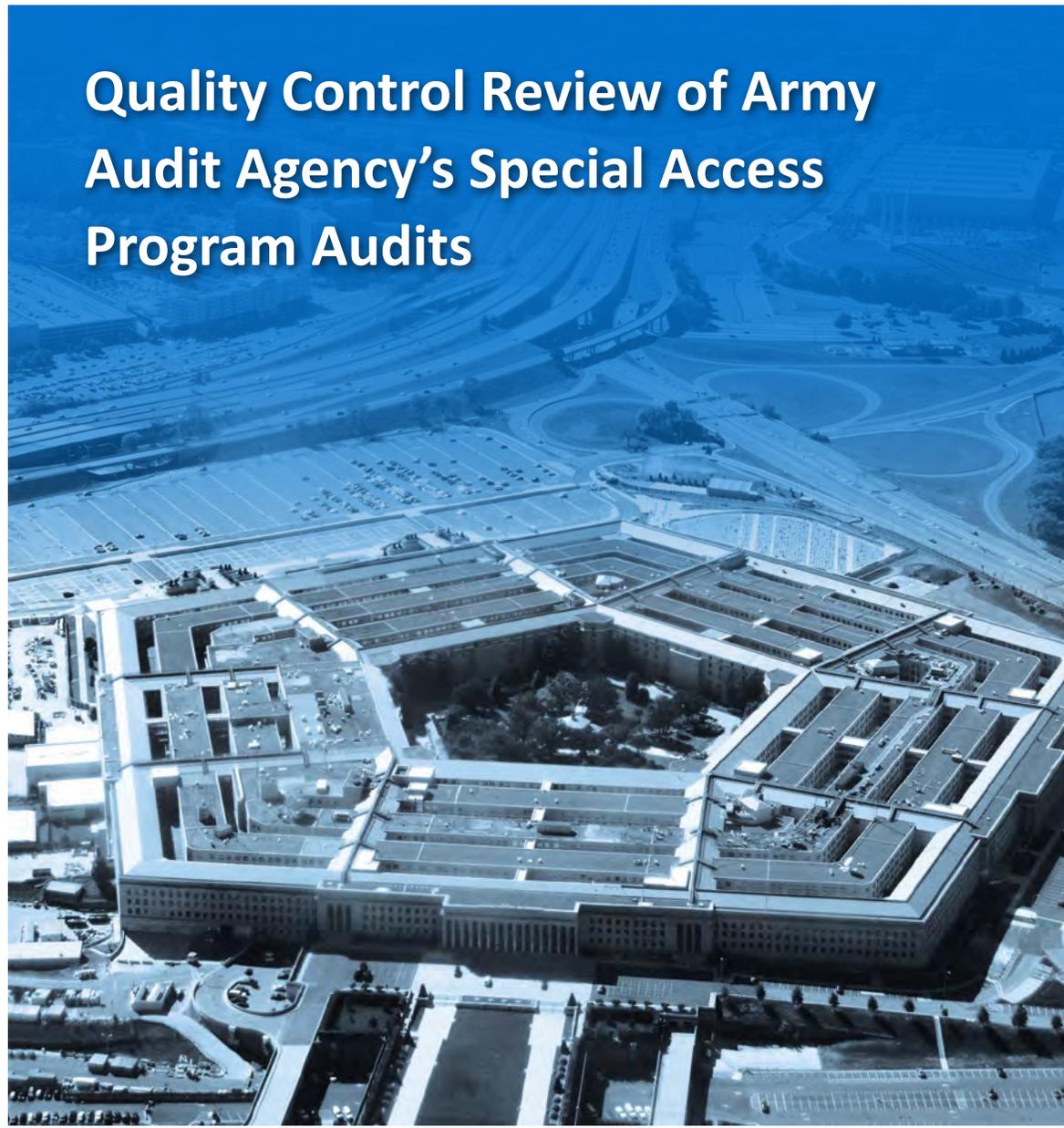




# INSPECTOR GENERAL

*U.S. Department of Defense*

SEPTEMBER 17, 2014



## Quality Control Review of Army Audit Agency's Special Access Program Audits

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

September 17, 2014

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Quality Control Review of Army Audit Agency's Special Access Program Audits  
(Report No. DODIG-2014-117)

We are providing this report for your information and use. We reviewed the Army Audit Agency's (AAA) system of quality control over Special Access Programs (SAP) audit reports issued for two fiscal years ended September 30, 2013. The generally accepted government auditing standards (GAGAS) require that an audit organization performing audits and/or attestation in accordance with GAGAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every 3 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 AAA SAP audits in conjunction with the Naval Audit Service's review of the AAA 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 AAA SAP system of quality control for audits to the extent considered appropriate.

Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. In our opinion, the system of quality control for the audit function of AAA SAP in effect for the period ended September 30, 2013, was designed in accordance with quality standards established by GAGAS. Accordingly, we are issuing a pass opinion on your SAP audit quality control system for the review period ended September 30, 2013.

Appendix A contains comments, observations, and recommendation where AAA can improve its quality control system. Appendix B contains the scope and methodology of the review.

We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877) or [Carolyn.Davis@dodig.mil](mailto:Carolyn.Davis@dodig.mil).

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

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

# Contents

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## Appendixes

Appendix A. Comments, Observations, and Recommendation \_\_\_\_\_ 1

Appendix B. Scope and Methodology \_\_\_\_\_ 4

**Management Comments** \_\_\_\_\_ 6

**Acronyms and Abbreviations** \_\_\_\_\_ 8

## Appendix A

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### Comments, Observations, and Recommendation

We are issuing a pass opinion because we determined that the Army Audit Agency's (AAA) quality control system is adequately designed and functioning as prescribed. The concerns we identified during our review of the selected AAA audit reports were not cumulatively significant enough to indicate that material deficiencies existed in the AAA quality control system for complying with generally accepted government auditing standards (GAGAS). We assessed two of the three audit reports in our sample for compliance with the 2007 revision of GAGAS because those audits began before the GAGAS 2011 requirements were implemented. However, we identified issues that are still applicable even when we apply the 2011 revision of GAGAS.

We identified areas of concern relating to quality control and audit documentation. We judgmentally tested the reports for compliance with GAGAS and AAA audit policies in nine areas: quality control, audit documentation, independence, professional judgment, competence, audit planning, supervision, evidence, and reporting.

### Quality Control

GAGAS 3.91 (2011 revision) and GAGAS 3.53e (2007 revision) states that audit organizations should establish policies and procedures for audit performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements.

US Army Audit Agency Regulation No. 36-3, "Audit Survey and Execution," dated August 1, 2011, Chapter 10, Section 10-1d, "Cross-Referencing Working Papers," states:

any information (facts, figures, or other data) contained in a working paper and used in a report must have a specific cross-reference to the report. Auditors should cross-reference to supporting working papers whenever possible and only cross-reference a draft report to summary working papers when the conclusions in the report are a consolidation of many working papers. As a minimum, auditors should cross-reference the following:

- (1) Audit Program. Auditors should cross-reference the audit program to the supporting and summary working papers.
- (2) Working Papers. Auditors should cross-reference working papers to the audit program, related working papers, evidentiary or source documentation, summary working papers, and the draft report.

We found that for two<sup>1</sup> of the three audits reviewed, the auditors did not follow the AAA audit policy relating to quality control. The auditors either did not cross-reference audit steps in the audit plan to supporting documentation or document that the audit steps did not apply after the auditors obtained additional documentation.

## Audit Documentation

GAGAS 6.79 (2011 revision) and GAGAS 7.77 (2007 revision) states that auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit 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, and its source and the conclusions reached including evidence that supports the auditors' significant judgments and conclusions.

US Army Audit Regulation No. 36-3, "Audit Survey and Execution," dated August 1, 2011, Chapter 11-1, "Audit File Organization," states:

auditors should place working papers and other audit files into logically organized folders. The working paper folders serve as the "master index" of all working papers, files, and products related to the audit. Auditors should index and save all documents and other files supporting the working papers to properly named subfolders.

We found that for two<sup>2</sup> of the three audits reviewed, the auditors did not properly follow AAA audit policies and organize folders. For one audit, the auditors did not include a master index to address which folder the working papers were

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<sup>1</sup> One audit was conducted under the 2007 GAGAS requirements while the other audit was conducted under the 2011 GAGAS requirements.

<sup>2</sup> One audit was conducted under the 2007 GAGAS requirements while the other audit was conducted under the 2011 GAGAS requirements.

located or how many binders completed the audit. For another audit, information was contained in unclassified automated working papers, but the classified working papers were not properly indexed to indicate that unclassified working papers existed.

During our review, the AAA Audit Quality and Assurance Branch issued a quality assurance report on April 24, 2014, on the SAP audits that identified the issue of indexing and audit documentation. The Acting Program Director for AAA Security and Intelligence Audits issued a memorandum on April 30, 2014, to address the issues identified in the quality assurance report. Specifically, the memorandum addressed that manual working papers should contain a master index, and that audits using both manual working papers and automated working papers contain a master index and the number of binders used to store the working papers. The master index must indicate the location of the manual files and the name of the automated system where the audit files are stored.

The Acting Program Director's action addresses the issues that we identified during our review of this area.

## **Recommendation**

**We recommend that the Acting Program Director AAA Security and Intelligence Audits:**

**Remind auditors to follow AAA guidance for cross-referencing working papers to include the referencing of the audit plan to working papers to support audit steps.**

## ***Management Comments***

The AAA Auditor General concurred. The Acting Program Director for Intelligence and Security Audits sent an e-mail on August 26, 2014, to all SAP personnel discussing the results of the peer review and re-emphasizing the need for auditors to fully cross-reference working papers. AAA also plans to discuss the requirement in detail to fully cross-reference working papers to supporting audit steps during the Intelligence and Security Audit Team's meeting scheduled in November 2014.

## ***Our Response***

AAA comments were responsive. No additional comments are needed.

## Appendix B

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### Scope and Methodology

We limited our review to the adequacy of AAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected 3 SAP audit from a universe of 11 SAP audit reports issued by AAA SAP auditors during FY 2012 and FY 2013. We tested each audit for compliance with the AAA system of quality control. The Naval Audit Service conducted a review of the AAA 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 AAA 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 both the 2011 and 2007 revisions of GAGAS issued by the Comptroller General of the United States. Both GAGAS 3.96 (2011 revision) and GAGAS 3.56 (2007 revision) contain a requirement for an external peer review at least once every 3 years. GAGAS 3.96 (2011 revision) states:

The audit organization should obtain an external peer review at least once every 3 years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and 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 both the March 2009 and the November 2012 update to the 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 Naval Audit Services used this guide in reviewing non-SAP audits at the AAA. We reviewed audit documentation, interviewed AAA auditors, and reviewed AAA audit policies. We reviewed the DoD OIG Report No. DODIG-2012-045, "Quality Control Review of

Army Audit Agency's Special Access Program Audits," dated January 27, 2012. We performed this review from April to June 2014 at one AAA office.

To select the audits under review, we:

- began with the FY 2013 audits reports in order to review the most current quality assurance procedures in place,
- eliminated audit reports produced from the same project, and
- eliminated audits that have the same or similar titles to ensure review of multiple types of projects.

Our review would not necessarily disclose all weaknesses in the system of quality control of all instances of noncompliance 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.

# Management Comments



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
OFFICE OF THE DEPUTY AUDITOR GENERAL  
FINANCIAL MANAGEMENT AND COMPTROLLER AUDITS  
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FORT BELVOIR, VA 22060-5609

SAAG-FMZ

2 September 2014

MEMORANDUM FOR Deputy Inspector General for Policy and Oversight, Office of the Inspector General, Department of Defense, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Quality Control Review of U.S. Army Audit Agency's Special Access Program Audits (Project Number: D2014-DAPOIA-0059.000)

1. We are providing our written response (enclosure) to the quality review report dated 22 August 2014. We concur with the recommendation in the report.
2. We thank you and your staff for their professionalism in performing the peer review and for bringing to our attention areas in which we can improve our operations. We agree with your conclusion that our system of quality control was operating effectively to provide reasonable assurance that special access program personnel were following established policies, procedures, and applicable auditing standards.
3. If you have any questions or need additional information, please contact me or Ms. Theresa Corbett at (703) 428-7213 or e-mail [theresa.r.corbett.civ@mail.mil](mailto:theresa.r.corbett.civ@mail.mil).

FOR THE AUDITOR GENERAL:

Handwritten signature of Kevin F. Kelly in black ink.

KEVIN F. KELLY  
Deputy Auditor General  
Financial Management  
and Comptroller Audits

Encl

## Management Comments (cont'd)

**Comments on Recommendation in Quality Control Review  
of U.S. Army Audit Agency's Special Access Program Audits  
(Project Number: D2014-DAPOIA-00059.000)**

**Overall.** We fully agree with your overall conclusion that U.S. Army Audit Agency's (USAAA's) system of quality control for special access programs was operating effectively to provide reasonable assurance that personnel were following established policies, procedures, and applicable auditing standards. We also appreciate the recommendation for corrective action you provided. The following comments describe the actions we took for the recommendation in the report.

**Recommendation.** The Acting Program Director for Intelligence and Security Audits should remind auditors to follow USAAA guidance for cross-referencing working papers to include the referencing of the audit plan to working papers to support audit steps.

**USAAA Comments.** Concur. On 26 August 2014, the Acting Program Director sent an e-mail to all special access program personnel discussing the results of the peer review and re-emphasizing the need for auditors to fully cross-reference working papers. In addition, the requirement to fully cross-reference working papers to supporting audit steps will be discussed in detail during the planned Intelligence and Security Audit Team's upcoming team meeting in November 2014.

## Acronyms and Abbreviations

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AAA	Army Audit Agency
GAGAS	Generally Accepted Government Auditing Standards
SAP	Special Access Programs

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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