

Inspector General

United States
Department of Defense



Oversight Review

August 15, 2008

Quality Control Review of
Air Force Audit Agency's
Special Access Program Audits

Report No. D-2008-6-007

Additional Copies

To obtain additional copies of the final report, visit the Web site of the Department of Defense Inspector General at www.dodig.mil/audit/reports or contact the Office of the Assistant Inspector General for Audit Policy and Oversight at (703) 604-8760 or fax (703) 604-9808.

Suggestions for Future Reviews

To suggest ideas for or to request future reviews, contact the Office of the Assistant Inspector General for Audit Policy and Oversight at (703) 604-8760 (DSN 664-8760) or fax (703) 604-9808. Ideas and requests can also be mailed to:

OAIG-APO
Department of Defense Inspector General
400 Army Navy Drive (Room 1017)
Arlington, VA 22202-4704

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@dodig.mil; or by writing to the Defense Hotline, The Pentagon, Washington, DC 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

AFAA	Air Force Audit Agency
GAS	Government Auditing Standards
IG	Inspector General
NAS	Naval Audit Service
PCIE	President's Council on Integrity and Efficiency
SAP	Special Access Programs



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

AUG 15 2008

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Quality Control Review of Air Force Audit Agency's Special Access
Program Audits Report No. D-2008-6-007

We are providing this report for your information and use. We reviewed the Air Force Audit Agency's (AFAA) system of quality control over Special Access Programs (SAP) audits for the two years ended September 30, 2007. The Government Auditing Standards (GAS) requires that an audit organization performing audits and/or attestation engagements in accordance with GAS 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 AFAA SAP audits in conjunction with the Naval Audit Service's (NAS) review of the AFAA 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 AFAA 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 AFAA SAP in effect for the period ended September 30, 2007 was designed in accordance with quality standards established by GAS. 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 an unmodified opinion on your SAP audit quality control system for the review period ended September 30, 2007.

Appendix A contains comments, observations, and recommendations where AFAA can improve its quality control system. Appendix B contains the scope and methodology of the review and Appendix C provides the full text of management comments in response to the draft report. We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Robert Kienitz at (703) 604-8754 (DSN 664-8754), Robert.Kienitz@dodig.mil.

A handwritten signature in cursive script that reads "Carolyn R. Davis".

Carolyn R. Davis
Acting Assistant Inspector General
for Audit Policy and Oversight

Appendix A. Comments, Observations, and Recommendations

We are issuing an unmodified opinion because we determined that the AFAA quality control system is adequately designed and functioning as prescribed. The concerns we identified with the working papers supporting the findings, conclusions, or recommendations during our review of the selected AFAA audit reports were not cumulatively significant enough to indicate that material deficiencies existed in the AFAA quality control system for complying with GAS. Because of the timeframe of the audit reports in our review, we measured the audits for compliance with the 2003 revision of the GAS and the May 2005 AFAA audit policies. We identified issues that are still applicable even when we apply the updated 2007 revision of GAS and the April 2006 AFAA audit policies.

Although the concerns we identified did not affect our overall opinion, there were areas where AFAA could improve the quality control process. We judgmentally selected and reviewed three of sixteen audit reports issued during a two year time period ending September 30, 2007. We tested the reports for compliance with GAS and AFAA audit policies in nine areas to include independence, professional judgment, competence, audit planning, supervision, evidence and audit documentation, reporting, non-audit services, and quality control. We identified minor discrepancies in three of the nine areas in our review in applying AFAA audit policy relating to:

- audit planning,
- supervision, and
- quality control.

Audit Planning. GAS 7.41 (2003 Revision) states that a written audit plan should be prepared for each audit. The form and content of the written audit plan will vary among audits but should include an audit program or project plan, a memorandum, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and of the auditors' basis for those decisions. It should be updated as necessary, to reflect any significant changes to the plan made during the audit. In addition, GAS 7.42 states that documenting the audit plan is an opportunity for the auditors to supervise audit planning.

AFAA Instruction 65-101, "Installation Audit Procedures", May 27, 2005, Section 2.8, Audit Program, requires the auditor to prepare a written audit program before starting any in-depth audit work. Team chiefs will review the program for adequacy and approve the program before the auditor starts audit testing. The program must provide understandable audit objectives and a series of program steps that will reasonably accomplish each objective.

We found that AFAA had adequately planned the three SAP audits in our review and documented the planning of these audits in a written audit plan. For two of the three audits in our review, the supervisor did not document the approval of the audit program prior to the start of audit work as required in AFAA Instruction 65-101. In one of these audits, the supervisor approved the audit program on his first visit to the audit office location which occurred months after the start of the audit. This was due in part to the supervisor not being co-located with the auditor assigned to the audit. Because the AFAA SAP offices are widely scattered, the supervisor only visits each office three or four times per year. The classification of the documents and working papers requires the supervisor to conduct reviews at the office where the audit files are located.

While the supervisor did not initial and date the audit program in the files until after the start of the audit, the audit files included documentation indicating that the supervisor was actively engaged in the audit planning process before the start of audit work.

Recommendation: We recommend that the Air Force Auditor General issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidance for review and approval of the audit program before the auditor starts audit testing.

Management Comments. The Air Force Auditor General concurred with the recommendation and stated that the AFAA Representative for Special Programs will discuss audit program review and approval during the AFAA SAP auditor conference to be held August 25-26, 2008. In addition, the AFAA Representative for Special Programs will issue a memorandum to all SAP auditors stressing the importance of complying with guidance related to audit program supervisory review and approval.

Reviewer Response. Management comments are responsive.

Supervision. GAS 7.47 (2003 Revision) requires that reviews of audit work should be documented. The nature and extent of the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff.

AFAA Instruction 65-101 "Installation Audit Procedures", May 27, 2005, Section 3.3.3, Supervisory Review, states that team chiefs will review all project working papers and use the AFAA Audit Review Record to specify the working papers reviewed; indicate the dates they reviewed the specified working papers; and record their review questions, taskings, and overall comments (both favorable and critical). Also, the team chief must electronically sign or initial and date each auditor-prepared electronic working paper file.

We judgmentally selected fifteen facts and figures from each audit report and reviewed the supporting working papers for evidence and documentation and supervisory reviews. For all three audits in our review, we found that some supporting working papers lacked evidence of supervisory reviews. During our review, we found the following:

-
- For two of the three audits, each audit had one of the fifteen facts/figures in our sample that the supervisor did not initial and date the supporting working papers as required in AFAA Instruction 65-101. In addition, we identified in each of these two audits an additional fact or figure not included as part of our sample that did not contain evidence of supervisory reviews such as the supervisor's initials and date on the supporting working paper.
 - For the remaining audit, two of the fifteen facts/figures in our sample the supervisor did not initial and date the supporting working papers.

While the supervisor did not initial and date these supporting working papers, we identified evidence of supervisory actions throughout the audit documentation such as telephone records of conversations between the auditors and the audit supervisor and the AFAA Audit Review Record.

Recommendation: We recommend that the Air Force Auditor General issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidance for obtaining supervisory approval on supporting working papers.

Management Comments. The Air Force Auditor General concurred with the recommendation and stated that the AFAA Representative for Special Programs will discuss supervisory review of working papers during the AFAA SAP auditor conference and will issue a memorandum to all SAP auditors stressing the importance of obtaining supervisory approval on all supporting working papers.

Reviewer Response. Management comments are responsive.

Quality Control. GAS 3.49 (2003 Revision) requires that each audit organization performing audits and/or attestation engagements in accordance with GAS should have an appropriate internal quality control system in place. Also, GAS 3.51 states that each audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures.

AFAA Instruction 65-101 "Installation Audit Procedures," May 27, 2005, Section 4.8.2.9, Independent Referencer Review Record, requires that the independent referencer document all comments, questions, and discrepancies on the Independent Referencer Review Record. The auditor will clearly accept, modify, or reject each point on the Independent Referencer Review Record. Also, Section 4.8.2.9.1 requires that when referencing is complete, the independent referencer, auditor, and team chief will sign and date the certification statement located at the bottom of the Internal Referencer Review Record indicating that the independent referencing was completed, and all suggestions and comments were satisfactorily resolved.

For all three audits reviewed, we found that either the independent referencer or the supervisor did not sign the certification at the bottom of the Independent Referencer Review Record. During our review we found that:

-
- Two of three audits the independent referencer did not sign the independence reference review certification indicating that all the comments and/or questions that the independent referencer addressed have been resolved. The independent referencer's initials and dates were included on the project file index, but the document had not been signed.
 - For the remaining audit, the supervisor did not sign the independence reference review certification and only initialed and dated the project file index.

In addition, for one of the three audits reviewed, the auditor who performed the independent reference review had signed an independence statement at the beginning of the audit as an audit team member. This auditor was a participant during initial briefings relating to the audit because of prior work experience with the audited area. This auditor was also responsible for addressing management comments after the draft report was issued due to the departure of the auditor who performed the audit work.

Recommendation 1. We recommend that the Air Force Auditor General issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidelines for independent reviewer and team chief signatures and dates on the Independent Referencer Review Record.

Management Comments. The Air Force Auditor General concurred and stated that the AFAA Representative for Special Programs will discuss the topic during the AFAA SAP Auditor Conference and will issue a memorandum to all SAP auditors stressing the importance of obtaining independent reviewer and division chief signatures and dates on the Independent Referencer Review Record.

Reviewer Response. Management comments are responsive.

As part of the quality control review of the AFAA SAP audits, we reviewed the AFAA internal quality assurance process. DoD OIG Report No. D-2005-6-009, "Quality Control Review of the Air Force Audit Agency's Special Access Program Audits" dated August 26, 2005 contained a recommendation to establish as part of its internal quality control program, internal quality assurance reviews of selected SAP audits. The AFAA performed one quality assurance review dated December 2007 which was completed over two years after DoDIG issued the quality control report of the AFAA SAP audits. The AFAA Representative for Special Programs stated that he was planning for another review during the last quarter of FY 2009. While having performed an internal quality assurance review is a step towards verifying compliance with GAS and AFAA audit policies, the reviews should be done more frequently and planned for scheduled intervals.

Recommendation 2: We recommend that the AFAA Representative for Special Programs establish timeframes to perform internal quality assurance reviews to make sure that SAP audits are in compliance with GAS and AFAA audit policies.

Management Comments. The Air Force Auditor General concurred and stated that the AFAA Representative for Special Programs will schedule internal quality assurance reviews annually to ensure SAP audits comply with GAS and AFAA audit policies.

Reviewer Response. Management comments are responsive.

Appendix B. Scope and Methodology

We limited our review to the adequacy of AFAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected three SAP audits from a universe of formal reports issued by AFAA SAP auditors during FY 2006 and FY 2007. We tested each audit for compliance with the AFAA system of quality control. The NAS conducted a review of the AFAA internal quality control system for non-SAP audits and/or attestation engagements and has issued a separate report. The Acting Assistant Inspector General for Audit Policy and Oversight will issue an overall opinion report on the AFAA 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 and other auditing standards contained in the 2003 Revision of the GAS issued by the Comptroller General of the United States. GAS 3.52 states:

The external peer review should determine whether, during the period under review, the reviewed audit organization's internal quality control system was adequate and whether quality control policies and procedures were being complied with to provide the audit organization with reasonable assurance of conforming with applicable professional standards. Audit organizations should take remedial, corrective actions based on the results of the peer review.

We conducted this review in accordance with standards and guidelines established in the April 2005 President's Council on Integrity and Efficiency (PCIE) "*Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General*." The NAS used this guide in review of non-SAP audits at the AFAA. We reviewed audit documentation, interviewed AFAA auditors, and reviewed AFAA internal audit policies. We reviewed the DoD OIG Report No. D-2005-6-009, "Quality Control Review of the Air Force Audit Agency's Special Access Program Audits" dated August 26, 2005. We performed this review from May to July 2008 at three AFAA offices.

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

- Worked backward starting with the FY 2007 audits in order to review the most current quality assurance procedures in place.
- Avoided audits with multiple SAPs associated with the audits 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
F2007-0004-FA0900	December 22, 2006	Contracting and Financial Management
F2007-0007-FA0900	January 30, 2007	Review of MIPRS (Military Interdepartmental Purchase Requests)
F2007-0010-FA0900	September 28, 2007	Systems Control and Accounting Conformance

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.

Appendix C. Air Force Audit Agency Comments



DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

5 August 2008

MEMORANDUM FOR ACTING ASSISTANT INSPECTOR GENERAL FOR AUDIT
POLICY AND OVERSIGHT
ATTN: MS. CAROLYN R. DAVIS

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

SUBJECT: Response to 29 July 2008 Draft Report, Quality Control Review of the Air Force
Audit Agency's Special Access Program Audits

My staff and I reviewed the subject draft report and are pleased you issued an unmodified opinion. We appreciate your conclusion that our internal quality control system was operating effectively to provide reasonable assurance special access program auditors followed established policies, procedures, and applicable auditing standards. We concur with the review results and recommendations and provide the attached responses.

We express our thanks to your 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 Ms. Deborah Jeffries at (703) 696-7727 or Mr. Andy Giancola at (703) 697-3344.

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

Attachment:
Recommendation Responses

cc:
SAF/AG
AFAA/AGS/DOV

RESPONSES TO RECOMMENDATIONS IN
29 JULY 2008 DRAFT REPORT, QUALITY CONTROL REVIEW OF
AIR FORCE AUDIT AGENCY'S SPECIAL ACCESS PROGRAM AUDITS

1. Recommendations. The Air Force Auditor General should:

a. Recommendation 1. Issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidance for review and approval of the audit program before the auditor starts audit testing.

b. Recommendation 2. Issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidance for obtaining supervisory approval on supporting workpapers.

c. Recommendation 3. Issue a memorandum to remind all SAP audit personnel of the importance of complying with established guidelines for independent reviewer and team chief signatures and dates on the Independent Referencer Review Record.

2. Recommendation 4. The AFAA Representative for Special Programs should establish timeframes to perform internal quality assurance reviews to make sure that SAP audits are in compliance with GAS and AFAA audit policies.

3. AFAA Comments. We concur with the observations and recommendations and provide the following comments:

a. Recommendation 1. Concur. The AFAA Representative for Special Programs will discuss audit program review and approval during the AFAA SAP Auditor Conference to be held 25 and 26 August 2008. He will also issue a memorandum to all SAP auditors stressing the importance of complying with guidance related to audit program supervisory review and approval. Estimated Completion Date: 30 September 2008.

b. Recommendation 2. Concur. The AFAA Representative for Special Programs will discuss supervisory review of workpapers during the AFAA SAP Auditor Conference and will issue a memorandum to all SAP auditors stressing the importance of obtaining supervisory approval on all supporting workpapers. Estimated Completion Date: 30 September 2008.

c. Recommendation 3. Concur. The AFAA Representative for Special Programs will discuss this topic during the AFAA SAP Auditor Conference and will issue a memorandum to all SAP auditors stressing the importance of obtaining independent reviewer and division chief signatures and dates on the Independent Referencer Review Record. Estimated Completion Date: 30 September 2008.

d. Recommendation 4. Concur. The AFAA Representative for Special Programs will schedule internal quality assurance reviews annually to ensure SAP audits comply with GAS and AFAA audit policies. He has scheduled the next quality assurance review for August 2009. Closed: 1 August 2008.

Attachment



Inspector General Department of Defense

