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United States  
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### **Acronyms**

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
GAS	Government Auditing Standards
IG	Inspector General
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

JUN - 2 2008

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY


SUBJECT: Quality Control Review of Army Audit Agency's Special Access Program Audits  
Report No. D-2008-6-006

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) 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 AAA SAP audits in conjunction with the Air Force Audit Agency's (AFAA) 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.

In our opinion, the system of quality control for the audit function of AAA SAPs 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 AAA can improve its quality control system, as well as our responses to AAA management comments to the draft report. 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](mailto:Robert.Kienitz@dodig.mil).

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

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## Appendix A. Comments, Observations, and Recommendations

We are issuing an unmodified opinion because we determined that the AAA quality control system is adequately designed and functioning as prescribed. The concerns we identified with the findings, conclusions, or recommendations 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 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; however, the 2007 revision of the GAS is also applicable to the issues we identified.

Although the concerns we identified did not affect our overall opinion, there were areas where AAA could improve the quality control process. We judgmentally selected and reviewed three audit reports. During our review, we found that for one of the three audits, the majority of the audit work was conducted prior to issuance of the DoD OIG Report No. D-2005-6-008, "Quality Control Review of Army Audit Agency's Special Access Program Audits" August 25, 2005. In the FY 2005 Quality Control Review of the AAA Special Access Program Audits, we identified minor discrepancies in compliance with GAS or AAA audit policy related to:

- supervision,
- evidence and documentation,
- reporting, and
- quality control.

We found those same discrepancies for one report in our review in which most of the work was done prior to the FY 2005 DoD OIG quality control review. Since we addressed those discrepancies in the previous quality control report, we are not making recommendations related to those issues in this report. However, for the three reports that we reviewed, we found that AAA could improve the quality control program and guidance related to the areas of Independence and Audit Planning.

**Independence.** GAS 3.03 (2003 Revision) states that in all matters relating to the audit work, the audit organization and the individual auditor; whether government or public, should be free both in fact and appearance from personal, external and organization impairments to independence. GAS 3.07 (2003 Revision) requires that the audit organization should have an internal quality control system to help determine whether auditors have any personal impairment to independence that could affect their impartiality or the appearance of impartiality. The audit organization needs to be alert for potential independence impairments that could affect their impartiality or the appearance of impartiality.



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AAA Regulation 36-3, "Audit Survey and Execution", October 17, 2003 defines the independence for the audit team and states that "To comply with this new standard, the Auditor-in-Charge must determine and document whether any audit team members have any personal impairments to independence based on the audited activity or subject matter of the audit. Auditors are responsible for notifying audit management if they have a personal impairment to independence." Also, in July 2005, AAA developed an independence statement for the Program Director and/or SES to be included in the audit documentation for the audits they are assigned to.

While we did not identify any impairments to independence, our review of the three SAP audit reports identified that two of the three audits didn't contain documentation indicating that independence certification for the Audit Manager had been reviewed. For only one of the SAP audits in our review, the Program Director signed the independence statement of the Audit Manager documenting review of the independence certification. We found that AAA audit policy relating to documenting or review of Audit Manager's independence was not clearly defined. The requirement doesn't clearly state that Audit Manager's independence certification statement should be documented and be included in the audit documentation. The AAA policy provides guidance for the Program Director and the audit team to document independence, but does not provide clear guidance for the documentation of the Audit Manager's independence.

**Recommendation.** We recommend that the Army Auditor General amend AAA Regulation 36-3, "Audit Survey and Execution" to clearly define that Audit Managers are required to prepare an independence certification statement and to have the Program Director review the certification for any impairments.

**Management Comments.** The Army Auditor General concurred with the recommendation and stated that AAA is currently updating AAA Regulation 36-3 and will ensure that it clearly defines the requirement for Audit Managers to prepare independence certification statements and have Program Directors review and approve the certification. The target date for publishing the revised regulation is September 30, 2008. In addition, the Program Director for SAP audits sent an e-mail reminder on May 5, 2008, to all team personnel reminding them that every auditor, to include Audit Managers, must sign an independence statement for every audit for which they are assigned.

**Reviewer Response.** Management comments are responsive.

**Audit Planning.** GAS 7.41(2003 Revision) requires 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.

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AAA Regulation 36-3, "Audit Survey and Execution" October 17, 2003 requires that the audit team will submit any changes to the Audit Plan to the Auditor-in-Charge or Audit Manager for review and approval. When changes are approved, the auditors will incorporate them into the audit program to accurately show the status of work.

We found that AAA had adequately planned the three SAP audits in our review and documented the planning of these audits in a written audit plan. For one of the three reports in our review, the Auditor-in-Charge made changes to the audit plan during the course of the audit. There was no documentation indicating that the Audit Manager reviewed or approved the changes to the audit plan. AAA audit policy requires the Audit Manager to review and approve the changes to the audit plan before incorporating them into the audit program.

**Recommendation.** We recommend that the Army Auditor General issue a memorandum to all SAP audit personnel to remind them to comply with established guidance for review and approval of changes to the audit plan.

**Management Comments.** The Army Auditor General concurred with the recommendation and stated that the Program Director for SAP audits sent an e-mail reminder to all team personnel on May 5, 2008, reiterating the need to not only review and approve the audit plan but to ensure that audit managers sign off on the applicable working paper. In addition, by September 30, 2008, the Army Auditor General plans to provide all AAA employees with a summary of the external peer review results, along with any guidance and reminders needed to address any weaknesses identified.

**Reviewer Response.** Management comments are responsive.



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## Appendix B. Scope and Methodology

We limited our review to the adequacy of AAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected three SAP audits from a universe of formal reports issued by AAA SAP auditors during FYs 2006 and FY 2007. We tested each audit for compliance with the AAA system of quality control. The AFAA is conducting a review of the AAA internal quality control system for non-SAP audits and/or attestation engagements and will issue a separate report. The Acting Assistant Inspector General for Audit 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 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."* We used a modified Guide to ensure consistency with the AFAA review of non-SAP audits, and to reflect the unique nature of auditing within a SAP environment. We reviewed audit documentation, interviewed AAA auditors, and reviewed AAA internal audit policy. We reviewed the DoD OIG Report No. D-2005-6-008, "Quality Control Review of the Army Audit Agency's Special Access Program Audits" August 25, 2005. We performed this review from March to April 2008 at one AAA field office.

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.

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The following table identifies the specific reports reviewed.

Report Number	Date	Title
A-2006-0069-ZBI	27 February 2006	Intelligence Commercial Activities
A-2006-0208-ZBI	7 September 2006	Followup Audit of Army Cover Program, Recommendation A-02
A-2007-0080-ZBI	13 February 2007	Contract Management/Administration for SAPs, Intel, and Sensitive Activities, Site C

**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. Management Comments



DEPARTMENT OF THE ARMY  
U.S. ARMY AUDIT AGENCY  
OFFICE OF THE DEPUTY AUDITOR GENERAL  
POLICY AND OPERATIONS MANAGEMENT  
3101 PARK CENTER DRIVE  
ALEXANDRIA, VA 22302-1596

SAAG-PMZ

27 May 2008

MEMORANDUM FOR Office of the Inspector General, Department of Defense

SUBJECT: Reply to Quality Control Review of Army Audit Agency's Special Access Program Audits (Project No. D2008-DIPOAI-0090.000)

1. We are pleased with your overall conclusion that the U.S. Army Audit Agency (USAAA) has implemented a comprehensive internal quality control program that complies with government auditing standards, is operating effectively, and provides reasonable assurance that audit teams follow internal policies and procedures and applicable government auditing standards.
2. In response to your recommendation on independence certifications, we agree that audit managers must prepare independence certification statements and have them reviewed and approved by program directors. We also agree that this requirement is not clearly stated in USAAA Regulation 36-3. However, the Agency's audit managers have generally understood that this was a requirement, and have generally abided by this requirement. In addition, the Agency's quality assurance reviews include verification that audit managers have documented their certification statement. For these audits, we have confirmed that both audit managers were free from any impairment to independence. The Agency is currently updating USAAA Regulation 36-3 and will ensure that it clearly defines the requirement for audit managers to prepare independence certification statements and have program directors review and approve the certification. Target date for publishing the revised regulation is 30 September 2008. Also, the program director for the audits under review sent an email reminder on 5 May 2008 to all team personnel reminding them that every auditor, to include audit managers, must sign an independence statement for every audit for which they are assigned.
3. In response to your recommendation on approval of the audit plan, we agree that all updated/revised audit plans must be reviewed and approved by the audit manager. As far as the audit in question, the audit manager was extensively involved in the effort and did review and approve the audit plan, though they didn't sign off on the working paper. The program director sent an email reminder to all team personnel on 5 May 2008 reiterating the need to not only review and approve the audit plan but to ensure that audit managers sign off on the applicable working paper. The Auditor General plans to provide all Agency employees with a summary of the DODIG and Air Force Audit Agency peer review results, along with any guidance and reminders needed to address any weaknesses identified. Target date for providing this summary is 30 September 2008.

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SAAG-PMZ

SUBJECT: Reply to Quality Control Review of Army Audit Agency's Special Access Program Audits (Project No. D2008-DIPOAI-0090.000)

4. If you have any questions concerning this reply, please contact Mr. Thomas Robertson at (703) 681-9595, or e-mail [Thomas.P.Robertson@us.army.mil](mailto:Thomas.P.Robertson@us.army.mil).

FOR THE AUDITOR GENERAL:

*Belinda A. Tiner*

BELINDA A. TINER  
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# Inspector General Department of Defense

