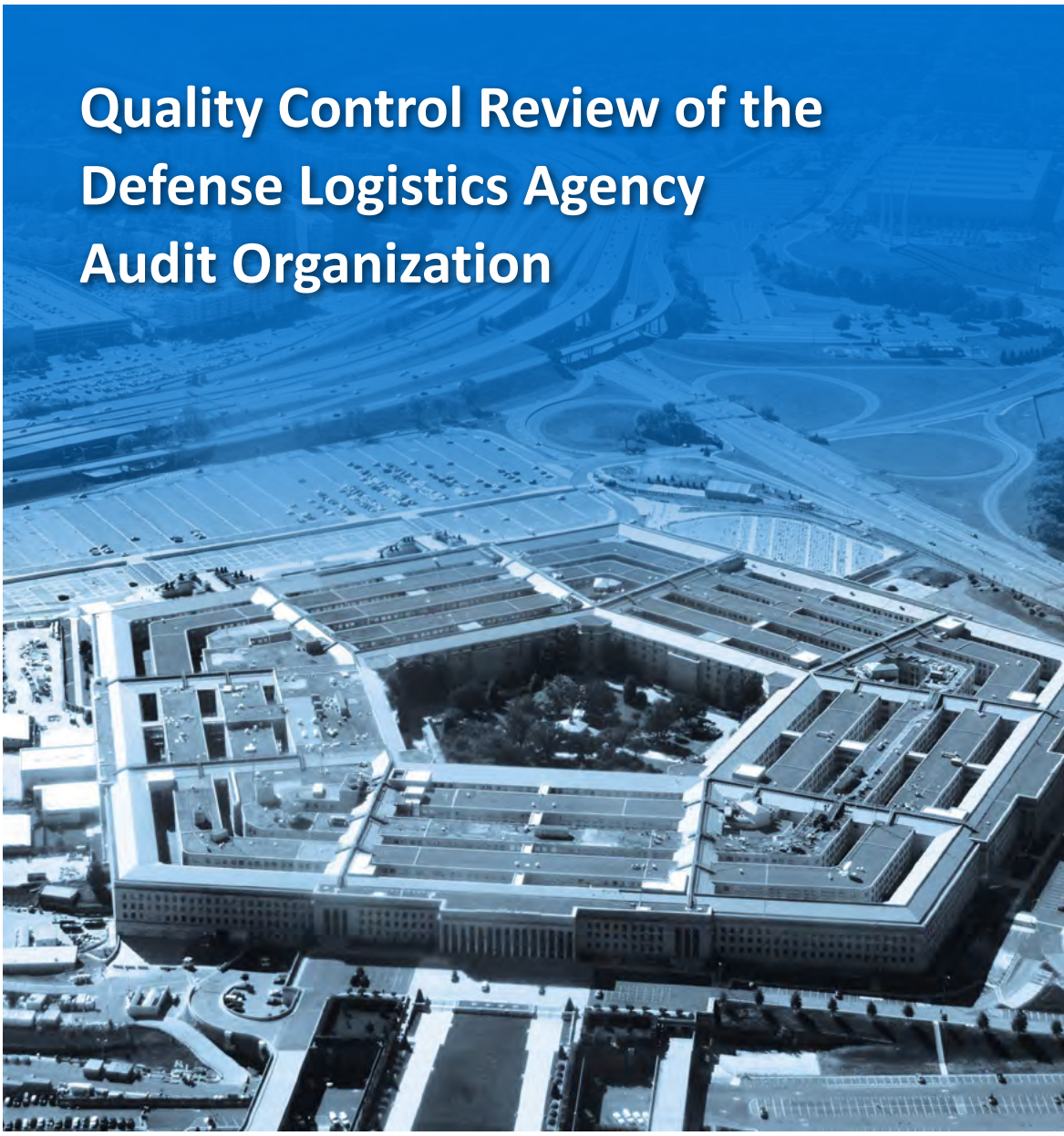
Report No. DODIG-2015-054

INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 19, 2014

Quality Control Review of the Defense Logistics Agency Audit Organization



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

December 19, 2014

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Quality Control Review of the Defense Logistics Agency Audit Organization (Report No. DODIG-2015-054)

We are providing this report for your information and use. We reviewed the Defense Logistics Agency (DLA), Office of the Inspector General (OIG) audit organization's system of quality control in effect for the period ended September 30, 2013. A system of quality control for the DLA OIG's audit organization encompasses the audit organization's leadership, emphasis on performing high quality work, and policies and procedures established to provide reasonable assurance of compliance with generally accepted government auditing standards (GAGAS). The DLA OIG's audit organization is responsible for designing a system of quality control and complying with its system to provide DLA management with reasonable assurance that its audits are performed and reported in accordance with GAGAS in all material respects. We conducted this quality control review in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation.

Since their last quality control review, for the period ended May 31, 2010, the DLA OIG audit organization has made substantial changes to improve its audit operations. For example, the DLA OIG implemented official policies and procedures, which all auditors are required to follow, and established an internal quality assurance division that performs ongoing, periodic assessments of work completed on audits.

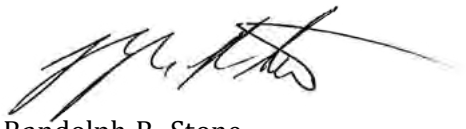
We tested the DLA OIG audit organization's system of quality control to the extent we considered appropriate. GAGAS require that an audit organization performing audits or attestation engagements or both have an appropriate internal quality control system in place and undergo an external quality control review at least once every 3 years by reviewers independent of the audit organization being reviewed. An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that they meet GAGAS requirements for quality control.

Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. We noted deficiencies related to the audit organization's design of and compliance with its system of quality control that could create a situation in which the DLA OIG would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. Accordingly, we are issuing a pass with deficiencies opinion on the DLA OIG audit organization for the period ended September 30, 2013.

Appendix A discusses our review of the DLA OIG audit organization's system of quality control and Appendix B contains the matters that resulted in the pass with deficiencies opinion.

In addition, Appendix C contains other findings where the DLA OIG audit organization can improve its quality control program related to auditing practices. Appendix D contains a summary of the results of our interviews with the DLA OIG audit staff. Appendix E 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.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Contents


INSPECTOR GENERAL
INTEGRITY
EFFICIENCY
DEPARTMENT OF DEFENSE

Introduction

Defense Logistics Agency

The Defense Logistics Agency (DLA) is the Department of Defense's largest logistics combat support agency, providing worldwide logistics support in both peacetime and wartime to the military services as well as several civilian agencies, state and local governments, and foreign countries. DLA is headquartered at Fort Belvoir in Northern Virginia and had $39 billion in FY 2013 sales and revenues. DLA employs more than 25,500 employees, supports roughly 2,400 weapon systems, and manages 9 supply chains and nearly 6 million items. DLA operates in 48 states and 28 countries, and processes more than 98,000 requisitions and more than 9,000 contract actions a day. DLA supports humanitarian relief efforts within the United States and abroad, provides logistics support to other Federal agencies, and had FY 2013 foreign military sales of about $2.1 billion, supporting 113 nations.

DLA Audit Organization

The DLA audit organization is located within the Office of the Inspector General (OIG), which is headquartered at Fort Belvoir, Virginia. The DLA OIG, formerly the DLA Accountability Office, was established in April 2011. The mission of the DLA OIG is to provide independent, relevant, effective, and timely audit and investigative services to:

- support warfighters worldwide,
- provide the DLA Director with facts and recommendations,
- help mitigate risk and reduce vulnerability to crime,
- promote accountability and integrity,
- ensure compliance with public law and DoD policies, and
- improve the effectiveness and efficiency of DLA's processes and systems.

In addition to the audit staff at DLA Headquarters, the audit organization has staff members at offices located in Richmond, Virginia; Philadelphia, Pennsylvania; New Cumberland, Pennsylvania; Columbus, Ohio; and Battle Creek, Michigan.

Appendix A

System of Quality Control

With the exception of one area, the DLA OIG audit organization's system of quality control was suitably designed. Since their last quality control review for the period ended May 31, 2010, the DLA OIG addressed our recommendation to implement official policies and procedures, which all auditors are required to follow.

The DLA OIG audit organization established its comprehensive quality control system in the DLA OIG Quality Control and Assurance Procedures (QCAP). The DLA OIG audit organization performed work and issued reports covered in our review pursuant to the July 15, 2011, and April 18, 2012, versions of the QCAP.

In one area, the QCAP did not contain specific policies and procedures in relation to ensuring that audits and attestation engagements comply with generally accepted government auditing standards (GAGAS). The QCAP did not contain procedures for evaluating the impact of previously performed nonaudit services on the auditors' independence on a prospective or current engagement and for addressing any threats identified. Adding policies and procedures to the QCAP for this area will assist DLA OIG management in ensuring that auditors are fully aware of their responsibilities when performing work in accordance with GAGAS.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend the Inspector General, DLA, update the QCAP to include policies and procedures that explain how to (1) evaluate the impact of previously performed nonaudit services on the auditors' independence on a prospective or current engagement and (2) address any threats identified.

DLA Comments:

The Inspector General, DLA concurred. Additional guidance will be added to the DLA Quality Control and Assurance Procedures (QCAP) to evaluate the impact of previously performed non-audit services on auditors' independence on a prospective or current engagement. If significant threats are identified, appropriate mitigating controls will be incorporated into the audit plan.

Our Response:

DLA comments were responsive to the recommendation. No additional comments are needed.

Appendix B

Deficiencies That Provide the Basis for the Opinion Rendered

We identified deficiencies related to the audit organization's design of and compliance with its system of quality control that could create a situation in which the DLA OIG would have less than reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects.[1] Deficiencies were identified in the areas of professional judgment, supervision, planning, and audit evidence and documentation. In some instances, the deficiencies identified limited the reliability of two of the six audit reports we reviewed.

We assessed three of the six 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 applied the 2011 revisions of GAGAS.

The following deficiencies affected our opinion on the DLA OIG audit function's compliance with its system of quality control.

- In relation to three of the audits reviewed, the DLA OIG audit function did not exercise sufficient professional judgment as evidenced by noncompliance with GAGAS and its system of quality control.
- Inadequate supervision was evident on three audits, which contributed to noncompliance with GAGAS and internal audit policies and procedures.
- The reliability of two audit reports was limited because:
    - Auditors did not evaluate the effectiveness of significant information systems controls when they were determined to be significant to the audit objectives. This included not gaining an understanding of the system as it relates to the information and identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit (Planning).
    - Auditors did not obtain assurance over the reliability of the information when they used information provided by officials of the audited entity as part of their evidence (Audit Evidence and Documentation).

[1] The deficiencies identified did not rise to the level of a significant deficiency because they were not systemic, and taken as a whole, were not significant enough to affect the DLA OIG's reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects.

- Auditors did not assess the reliability of computer-processed data (Audit Evidence and Documentation).
- Auditors did not obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions (Audit Evidence and Documentation).

These deficiencies provided the basis for the opinion rendered. Implementing the recommendations identified in this report would assist the DLA OIG efforts in improving its audit organization's system of quality control and help increase compliance with GAGAS requirements.

Professional Judgment

The DLA OIG Audit Organization Did Not Exercise Professional Judgment in Planning and Performing Audits and in Reporting the Results

GAGAS 3.31 (2007 revision) and 3.60 (2011 revision) state that auditors must use professional judgment in planning and performing audits and in reporting the results. GAGAS 3.35 (2007 revision) and 3.64 (2011 revision) state using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including maintaining objectivity and credibility; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the assignment/audit process. The QCAP requires that when stating that their work is conducted in accordance with GAGAS, DLA OIG auditors must use professional judgment in planning and performing audits and in reporting the results. We determined that for three of the six of audits reviewed, the DLA OIG audit function did not exercise professional judgment due to the array of noncompliances found in the majority of auditing standards areas including: planning, supervision, evidence, documentation, reporting, and the use and application of GAGAS. The GAGAS areas where the audit organization lacked professional judgment for the three projects are included in Table B-1 and discussed in detail throughout this report.

Table B-1. DLA OIG Audit Organization's Noncompliances with GAGAS and System of Quality Control

Audits Reviewed (By Report Number)	Planning	Audit Evidence and Documentation	Supervision	Reporting	Quality Control
Audit of DLA Disposition Services Contingency Operations in Afghanistan (Report No. DAO-12-07)	X	X	X	X	X
Audit of Real Property Additions, Disposals, and Construction-In-Progress (Report No. DAF-12-15)*	X	X	X	X	X
Audit of the Sustainment, Restoration, and Modernization (SRM) Program - Europe (Report No. DLA OIG FY14-04)		X	X	X	X

* The audit report for this project was rescinded during this review after the DLA OIG Quality Assurance Division identified significant issues that required immediate attention. The significant issues included a lack of an evaluation of information systems control effectiveness and recommendations that did not flow logically from the findings and/or were not directed at resolving the root causes of the reported findings. The DoD OIG decided to continue to review the project; it remained in the sample of projects to review.

Table B-1 depicts deficiencies and other findings in multiple standards areas, which evidences a lack of professional judgment as defined in GAGAS 3.31 and 3.35 (2007 revision) and GAGAS 3.60 and 3.64 (2011 revision). This table also includes noncompliances discussed in Appendix C to capture the lack of professional judgment in all aspects related to the professional responsibilities of DLA OIG auditors.

Supervision

Inadequate Supervision

For three of the six projects reviewed, inadequate supervision contributed to the deficiencies associated with each project. There was inadequate supervision during the planning phase of audits, compilation of audit evidence and documentation, and reporting the results. Based on discussions with audit management, we believe adequate supervisory reviews could have detected the deficiencies and presented opportunities for the audit staff to correct them prior to working papers being finalized and the audit reports being issued.

GAGAS 7.53 (2007 revision) and 6.54 (2011 revision) state that audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and applicable requirements, while staying informed about significant problems encountered, and reviewing the work performed. The QCAP states that throughout the audit, audit managers must properly supervise audit staff and that the audit manager and Auditor in Charge (AIC) are the key audit positions responsible for ensuring the audit documentation is in compliance with the QCAP. Tables B-2, B-3, and B-4 summarize the supervisory deficiencies and noncompliances with the QCAP among the three projects.

B-2. Audit Planning

Audit Project(s)	Deficiency	QCAP Guidance
1.) Audit of DLA Disposition Services Contingency Operations in Afghanistan (Project Code DAO-12-07) 2.) Audit of Real Property Additions, Disposals and Construction-in-Progress (Project Code DAF-12-15)	Auditors did not always obtain an understanding of and evaluate information systems controls and their design and effectiveness significant to the audit objectives.	If the information systems controls are determined significant to the audit objectives, auditors should evaluate the design and operational effectiveness of such controls. Audit procedures to evaluate the effectiveness of significant information systems controls include: A. Gaining an understanding of the system as it relates to the information. B. Identifying and evaluating the general and application controls that are critical to providing assurance over the reliability of the information required for the audit.

B-3. Compiling Audit Evidence and Documentation

Audit Project(s)	Deficiency	QCAP Guidance
Audit of the SRM Program – Europe (Project Code DAO-11-01)	1.) Audit documentation did not support findings and conclusions that were included in the audit reports. 2.) Audit documentation was not prepared in sufficient detail, and in some instances, the documentation was in conflict with other documentation within the project and the audit report.	1.) Audit documentation provides a record of the work performed and should support the auditor's findings, opinions, conclusions. 2.) Auditors must prepare audit documentation for each audit in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached.
Audit of DLA Disposition Services Contingency Operations in Afghanistan (Project Code DAO-12-07)	Auditors did not obtain assurance over the reliability of information provided by auditee officials and relied upon by the auditors as part of their evidence.	Auditors must consider the reliability of documentary evidence. Although most documents received from the organization would be difficult to alter without detection, auditors must consider this possibility and examine the documents carefully.
1.) Audit of Real Property Additions, Disposals and Construction-in-Progress (Project Code DAF-12-15) 2.) Audit of DLA Disposition Services Contingency Operations in Afghanistan (Project Code DAO-12-07)	Auditors did not assess the sufficiency and appropriateness of computer-processed information.	Auditors should assess the sufficiency and appropriateness of computer processed information, regardless of whether this information is provided to auditors or they extract it independently. The assessment of the sufficiency and appropriateness includes considerations regarding the completeness and accuracy of the data for the intended purposes. A data reliability assessment should be performed for computer-processed data that materially support findings, conclusions, or recommendations.

B-4. Reporting the Results

Audit Project(s)	Deficiency	QCAP Guidance
1.) Audit of DLA Disposition Services Contingency Operations in Afghanistan (Project Code DAO-12-07) 2.) Audit of the SRM Program – Europe (Project Code DAO-11-01)	Auditors did not describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.	If the report relies on a sample, a description of the methodology used to select the sample must be contained in the scope and methodology section.
1.) Audit of Real Property Additions, Disposals and Construction-in-Progress (Project Code DAF-12-15) 2.) Audit of the SRM Program – Europe (Project Code DAO-11-01)	Recommendations did not flow logically from the findings and conclusions.	Recommendations are most effective when they are specific and practical.
Audit of the SRM Program – Europe (Project Code DAO-11-01)	No recommend actions to correct a deficiency identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance was substantiated by the reported findings and conclusions.	The audit report documents and communicates the deficiencies needing action, recommends the needed corrective action, and identifies who should take the action.
Audit of the SRM Program – Europe (Project Code DAO-11-01)	Auditors did not evaluate the validity of the audited entity's comments when the comments were in conflict with the findings and conclusions in the draft report.	Briefly summarize management comments and include an evaluation of these comments in the body of the audit report.

Planning

Auditors Did Not Evaluate the Effectiveness of Significant Information Systems Controls

For two of the six projects reviewed, auditors did not evaluate the effectiveness of significant information systems controls that were needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. As a result, there was a lack of assurance that the information required for the audit was reliable.

GAGAS 6.25 (2011 revision) states that audit procedures to evaluate the effectiveness of significant information systems controls include: (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit. The QCAP states that DLA auditors are responsible for obtaining and documenting

a sufficient understanding of information system controls in order to assess audit risk and develop audit objectives. Information system controls are significant if their effectiveness is necessary to obtain sufficient, appropriate evidence to support the audit objectives.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, Report No. DAO-12-07, there was no audit documentation showing the auditors gained an understanding about the Management Information Distribution and Access System (MIDAS). The auditors used data generated from MIDAS to analyze property receipt transaction data for 141 sample items at 3 sites to determine whether the audited entity had sufficient policies and controls in place to accomplish their mission. The auditors' analysis yielded two types of discrepancies with the computer-generated data and there was a recommendation for corrective action. However, because there was no evaluation of the effectiveness of controls over MIDAS, the auditors may not have assessed audit risk adequately, potentially resulting in improper or incomplete findings, conclusions, and recommendations.

For the Audit of Real Property Additions, Disposals and Construction-in-Progress, Report No. DAF-12-15, the auditors did not perform information systems control testing of the Enterprise Business System (EBS) although they relied on data generated from the system. The auditors did not perform information systems control testing because they assumed the information generated from EBS was accurate. The auditors used data and reports generated from EBS to determine whether real property additions and disposals used by DLA were properly accounted for and recorded. The DLA OIG identified deficiencies and concluded the deficiencies may have represented a material weakness in the real property and financial reporting process. Based on their findings, the DLA OIG developed nine recommendations. In March 2014, the DLA OIG rescinded the audit report because an internal quality assurance review determined the audit work was deficient, in part, because the audit team did not evaluate the effectiveness of EBS's controls.

Audit Evidence and Documentation

Auditors Did Not Assess the Reliability of Computer-Processed Data

For two of the six projects reviewed, auditors did not assess the reliability of computer-processed data that materially supported their findings, conclusions, and recommendations. GAGAS 6.66 (2011 revision) states that the assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. The QCAP states that data reliability refers to the accuracy

and completeness of computer-processed data, given the intended purposes for use. A data reliability assessment should be performed for computer-processed data that materially support findings, conclusions, or recommendations. Auditors should refer to GAO's Guide GAO-09-680G "Applied Research and Methods: Assessing the Reliability of Computer-Processed Data," July 2009, for a framework to use when designing a data reliability assessment.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, auditors used property receipt transaction data that were generated from MIDAS to determine whether the audited entity had sufficient policies and controls in place to accomplish its mission. The auditors determined they did not have to assess the reliability of the computer-generated data because they reviewed source documentation maintained at the sites to develop the related audit conclusions.

For the Audit of Real Property Additions, Disposals and Construction-in-Progress, auditors used data and reports generated from EBS and did not assess the reliability of the data because they assumed that information generated from the system was accurate.

Auditors Did Not Verify the Reliability of Information That Was Provided by Officials of the Audited Entity

For one of the six projects reviewed, auditors did not verify the reliability of the information when the information was provided by officials of the audited entity as part of their evidence. GAGAS 6.65 (2011 revision) states that when auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. The QCAP states auditors must consider the reliability of documentary evidence. Although most documents received from the audited organization would be difficult to alter without detection, auditors must consider this possibility and examine the documents carefully.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, the auditors reviewed source documentation maintained at the sites to develop the related audit conclusions. The source documentation was used in conjunction with computer-processed data derived from MIDAS, the information system in which the auditors did not gain an understanding of as it relates to the information or identify and evaluate the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

Lack of Sufficient and Appropriate Evidence to Support the Findings and Conclusions

For two of the six projects reviewed, the auditors did not have sufficient and appropriate evidence to support the findings and conclusions reported. This determination is based on the fact that the auditors did not assess the reliability of computer-processed data that materially supported their findings, conclusions, and recommendations. GAGAS 6.66 (2011 revision) states the assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. GAGAS 7.14 (2011 revision) states that in the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. The QCAP states data reliability refers to the accuracy and completeness of computer-processed data, given the intended purposes for use. Auditors should assess the sufficiency and appropriateness of computer-processed information.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, Report No. DAO-12-07, the auditors used property receipt transaction data that was generated from a computer system, MIDAS, to determine whether the audited entity had sufficient policies and controls in place to accomplish its mission. The auditors determined they did not have to assess the reliability of the computer-generated data because they reviewed source documentation maintained at the sites to develop the related audit conclusions. Based on their analysis, the auditors identified two types of discrepancies and developed one recommendation.

For the Audit of Real Property Additions, Disposals and Construction-in-Progress, Report No. DAF-12-15, auditors used data and reports generated from a computer system, EBS, and did not assess the reliability of the data. The auditors stated in the report that they assumed the information generated from the system was reliable. Based on their analysis, the auditors developed three (of the nine) recommendations relating to real property and real property financial data generated from EBS. In March 2014, a DLA OIG internal quality assurance review also determined the audit work was deficient because there was insufficient and inappropriate evidence to support the reported findings, conclusions, and recommendations. The DLA OIG audit organization rescinded the audit report because of these findings.

Recommendations, Management Comments, and Our Response

Recommendation 2

We recommend the Inspector General, DLA, take additional steps to ensure the audit organization complies with GAGAS and the QCAP. The quality control review results showed that the audit organization needs to take additional steps because the current policy and procedures do not appear to be enough to consistently achieve a reasonable level of compliance. Additional steps should include:

- **Provide training to the staff to improve the audit organization's understanding and knowledge of the following GAGAS standards: professional judgment, supervision, and audit evidence and documentation (accessing the reliability of computer-generated data).**
- **Establish a 6-month plan identifying high-risk areas to review for compliance with internal quality control policies and procedures and GAGAS.**

DLA Comments:

The Inspector General, DLA concurred. Additional training will be provided to auditors-in-charge in the last week of January 2015 and training will be provided to the remaining auditors by June 2015. Training will include guidance on conducting audits to ensure conformity with generally accepted government auditing standards (GAGAS) and the DLA QCAP.

After completion of the semi-annual internal quality assurance reviews, audit leadership will discuss the results of high-risk areas identified, with emphasis on the importance of compliance with GAGAS and the DLA QCAP during the performance and review of future audit projects.

Our Response:

DLA comments were responsive to the recommendation. No additional comments are needed.

Appendix C

Other Findings That Warrant Disclosure

The DLA OIG audit organization's performance during the audits reviewed showed evidence of noncompliance in three additional GAGAS areas pertaining to audit evidence and documentation, reporting, and quality control. The following three areas of noncompliance did not affect the opinion rendered, but due to their relative importance to the audit organization's system of quality control, they warranted disclosure.

Audit Evidence and Documentation

- For one audit, auditors did not prepare audit documentation in sufficient detail and the documentation was in conflict with other documentation within the same project and the audit report.

Reporting

- For five audits, the DLA OIG audit organization included a modified GAGAS compliance statement in its audit reports, but did not document the assessment of the GAGAS noncompliance to the audit objectives along with its reasons for not complying with the requirements.
- For two audits, audit reports did not discuss sample designs and state why the designs were chosen, including whether the results can be projected to the intended population,
- For two audits, auditors did not develop recommendations that flowed logically from the findings and conclusions and/or developed recommendations that were not directed at resolving the causes of the identified findings and conclusions,
- For one audit, auditors did not develop recommended actions to correct a deficiency identified during the audit when the potential for improvement in programs, operations, and performance was substantiated by the reported findings and conclusions, and
- For one audit, auditors did not evaluate the validity of the audited entity's comments when the comments were in conflict with the findings, conclusions, and recommendations in the draft report.

Quality Control

- For three audits, auditors did not comply with independent reference review policies and procedures and
- For two audits, auditors did not comply with Quality Control Checklists' procedures.

Audit Evidence and Documentation

Auditors Did Not Prepare Documentation in Sufficient Detail

For one of the audits reviewed, extensive verbal explanations were required from the DLA OIG to enable the DoD OIG review team to understand the work performed and the conclusions reached. Particularly, the DoD OIG review team had to inquire as to why summary working papers, the supporting documentation for the summary working papers, and in some instances the audit report, contained conflicting results. 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 QCAP states auditors must prepare audit documentation for each audit in sufficient detail to provide a clear understanding of the work performed (including the nature, timing, extent, and results of audit procedures performed), and the conclusions reached.

For the Audit of the SRM Program-Europe, the auditors performed testing throughout the audit to achieve the audit objective. For two of the four types of tests the auditors performed, the summary working papers, spreadsheets, and/or the audit report contained conflicting results. During discussions with DLA OIG audit staff, they admitted that the audit documentation was confusing and difficult to follow. We determined the inconsistencies did not significantly affect the audit results. Specifically, we found:

- For three sample projects tested, the summary working paper stated that two of the sample projects were outside of the audit scope, thus, one sample item remained. The result of the testing for the one remaining sample project was not included in the summary working paper; we could not determine whether an exception was noted by the audit team. The supporting spreadsheet for the summary working paper identified the three sample projects, with no exceptions.
- A spreadsheet identified two sample projects with exceptions. This is inconsistent with the audit report, which stated there was only one sample project with an exception.
- There was a discrepancy for the total exceptions noted in the audit report versus what was stated in the summary working paper. The exceptions noted were for missing technical documentation. The audit report stated there were three exceptions, while the summary working paper noted nine exceptions.

Also, the audit report stated the audit was initiated because management of the audited entity expressed concerns with four specific SRM projects. However, in the audit documentation, it was stated management expressed concern with six projects. DLA OIG auditors were unsure why the discrepancy occurred. They stated maybe the working paper was not updated after discussions with the audited entity.

Reporting

Usage of a Modified GAGAS Compliance Statement in Audit Reports

Audit reports issued by the DLA OIG audit organization for the period under review included a modified GAGAS compliance statement. The DLA OIG audit organization included the compliance statement in their audit reports, but did not always perform all the necessary procedures required by GAGAS and the QCAP when doing so. Specifically, when auditors did not comply with applicable GAGAS requirements, they did not document the assessment of the noncompliance to the audit objective along with their reasons for not following the requirements. We determined that the DLA OIG documented their assessment of the organizational impairments, along with their reasons for not following GAGAS requirements for only one project (DLA Implementation of the Federal Information Security Management Act (FISMA) Reporting Process, DoD Information Assurance Certification and Accreditation Process (DIACAP), and Selected Information Assurance Controls; Report No. DAO 10-19).

We noted the following modified GAGAS compliance statement in the six audit reports we reviewed:

> We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Government Accountability Office except for the standard related to organizational independence. This organizational impairment resulted from the DLA Office of the Inspector General (OIG) Audit Division (formally DLA Accountability Office Audit Division) not being accountable to the head or deputy head of DLA, and conducting non audit services related to Office of Management and Budget Circular A-123, Appendix A, Management's Responsibility for Internal Control.[2] To correct this, we have established policies and procedures to provide reasonable assurance of conforming to applicable professional standards. However, the impairment had no effect on the quality of this report, as the standards require that we

[2] The organizational impairments were identified by the DoD OIG as significant deficiencies during the DLA audit organization's quality control review for the period ended May 31, 2010 (DoD IG Report No. D-2011-6-005, March 16, 2011).

> plan and conduct the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

GAGAS 1.13 (2007 revision) and 2.25 (2011 revision) state:

> When auditors do not comply with applicable requirement(s), they should (1) assess the significance of the noncompliance to the audit objectives, (2) document the assessment, along with their reasons for not following the requirement(s), and (3) determine the type of GAGAS compliance statement. The auditors' determination will depend on the significance of the requirements not followed in relation to the audit objective (2007 revision) and is a matter of professional judgment, which is affected by the significance of the requirement(s) not followed in relation to the audit objectives (2011 revision).

In March 2011, the DLA OIG Quality Assurance Division sent an e-mail to the audit mangers informing them that when using a modified GAGAS statement, "if the intent of the GAGAS requirement cannot be met through other means; the auditor must assess and document the significance of the requirement(s) not followed in relation to the audit objectives, and determine the type of GAGAS compliance statement." This guidance was included in the versions of the QCAP that we reviewed.

In April 2014, during discussions with DLA OIG audit management regarding the usage of the modified GAGAS statement in the audit reports, audit management stated they included the statement in an attempt to be transparent to the users of their audit reports.

Audit Reports Did Not Discuss Sample Designs Chosen

For two of the six projects reviewed, the audit reports did not discuss the sample designs and state why the designs were chosen, including whether the results could be projected to the intended population.

GAGAS 8.13 (2007 revision) and 7.13 (2011 revision) state that in reporting audit methodology, when sampling significantly supports the auditors' findings, conclusions, or recommendations, auditors should describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population. The QCAP states that if the report relies on a sample, a description of the methodology used to select the sample must be contained in the scope and methodology section.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, the audit report did not mention that out of the 141 sample transactions selected for testing, 6 transactions were judgmentally selected (the remaining transactions were randomly selected). Also, for this project, the audit report did not include complete results for the 141 sample transactions tested. The results were incomplete because the results were not projected to the intended population, and of the 141 sample transactions, there was only a discussion for 76 sample transactions. The audit report did not discuss the testing results for the remaining 65; it was not clear if the remaining 65 sample transactions were tested at all.

For the Audit of the SRM Program-Europe, the audit report did not describe the sample designs for three sets of samples the auditors used to address the audit objective. After the DoD OIG review team inquired about the sampling methods used, DLA OIG audit personnel stated that the sample items for each of the three sets were judgmentally selected.

Recommendations Did Not Flow Logically from the Findings and Conclusions

For two of the six projects reviewed, the audit reports contained recommendations that did not flow logically from the findings and conclusions. GAGAS 8.28 (2007 revision) and 7.28 (2011 revision) state that auditors should make recommendations that flow logically from the findings and conclusions and are directed at resolving the cause of identified deficiencies and findings. The QCAP states the audit report documents and communicates the deficiencies needing action, recommends the needed corrective action, and identifies who should take the action. The QCAP also states recommendations are most effective when they are specific and practical.

For the Audit of Real Property Additions, Disposals, and Construction-in-Progress, Report No. DAF-12-15, six of the nine recommendations in the audit report did not flow logically from the findings and conclusions because the recommendation either included corrective action for individuals that were not involved in the program and operations needing improvement or were not directed at resolving the cause of the identified deficiencies/problems. For example, one of the recommendations included corrective action for real property officers even though the officers were not involved in construction processes that were reviewed by the DLA OIG.

Also for this audit, three of the nine recommendations in the audit report were related to real property and real property financial data generated from an information system used by the audited entity. However, the auditors developed

the recommendations even though they lacked an understanding of the information system and did not assess the reliability of the computer-processed data because they assumed it was accurate.

For the Audit of the SRM Program-Europe, one of the six recommendations contained in the audit report did not flow logically from the DLA OIG auditors' findings and conclusions, and was not specific as to how it will improve programs and operations. The DLA OIG found that the audited entity had not consistently applied four key programmatic and budget level approval controls for the projects the DLA OIG reviewed. The DLA OIG's recommendation to the audited entity for this finding was: Identify, perform, and document key internal controls related to technical, programmatic, and funding reviews of SRM projects.

The recommendation did not flow logically because the DLA OIG found that the audited entity did apply/perform the key internal controls; just not on a consistent basis, which indicates the audited entity was aware of and had identified the key internal controls that were in place. Also, the recommendation was not specific as to how the recommended actions would improve programs and operations. The recommendation did not define how the suggested actions would solve the problems detected, eliminate the issue, or mitigate the risks involved.

No Recommended Action to Correct Deficiency Identified During an Audit

For one of six projects reviewed, the DLA OIG did not recommend actions to correct a deficiency identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance was substantiated by the reported findings and conclusions. GAGAS 8.28 (2007 revision) states auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. The QCAP states the audit report documents and communicates the deficiencies needing action, recommends the needed corrective action, and identifies who should take the action.

For the Audit of the SRM Program-Europe, the DLA OIG did not develop a recommendation for corrective action when they determined the SRM program lacked training for all parties involved in the program, which could lead to the misuse of SRM funds. When the DoD OIG review team inquired as to why there was no recommendation, DLA OIG audit staff members stated they believed the six recommendations that were developed captured the training aspect.

We disagree with the DLA OIG's assessment that the six recommendations that were developed addressed the fact that there was a lack of training because none of the recommendations mentioned training. In addition, the DLA OIG only recommended corrective actions pertaining to internal controls, and for implementing system enhancements and additional monitoring and reconciliation processes and procedures.

Validity of the Audited Entity's Comments Not Evaluated

For one of the six projects reviewed, the audited entity's comments were in conflict with the findings and conclusions in the draft report, and the DLA OIG did not evaluate the validity of the comments. GAGAS 8.36 (2007 revision) states that when the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence. The QCAP states that audit reports must briefly summarize management comments and include an evaluation of these comments in the body of the audit report.

For one of the recommendations in the draft report for the Audit of the SRM Program-Europe, the audited entity concurred with comments. Even though the audited entity concurred with the recommendation, they believed the DLA OIG's evaluated projects were judgmentally selected and not a representative random sample. From research into the project files and existing documentation, the auditors believed the analysis they performed for review and approval processes more accurately reflected actual occurrences for the situations than those identified by the DLA OIG. In their comments, the audited entity stated they provided documentation to the DLA OIG audit team to support their analysis. Table C identifies the differences between the DLA OIG and audit entity's findings and conclusions.[3]

[3] The exceptions noted by the DLA OIG and the audited entity were based on the review/testing of 39 projects.

Table C. Differences Between the DLA OIG and Audited Entity's Findings and Conclusions for Review and Approval Processes

	DLA OIG Exceptions	Audited Entity Exceptions	DLA OIG Error Rate	Audited Entity Error Rate
Engineer Technical Review	23	3	59%	7.7%
Project Manager Approval	1	0	3%	0%
Threshold Approval	8	1	21%	2.6%
Military Interdepartmental Purchase Request Review and Approval	16	0	41%	0%

If the DLA OIG staff disagreed with the audited entity's analysis as shown in Table C, they did not explain in the audit report their reasons for disagreement. Also, if they found the comments valid and supported with sufficient, appropriate evidence, they did not modify their report as necessary.

OIG Quality Control Policies and Procedures

Independent Reference Review Process Not Effective

For one of the six projects reviewed, the independent reference review (IRR) process was not effective, causing the audit report to be released even though there was a lack of sufficient, appropriate evidence to support the reported findings and conclusions, and the recommendations did not flow logically. The audit report was rescinded during this review after the DLA OIG Quality Assurance Division identified deficiencies that should have been noted during the IRR process. Also, we found that for another project, incorrect and inadequate references were used during the IRR process and there was no evidence showing that proper or adequate references were ever provided to the person conducting the IRR. In addition, for a third audit project, a table that provided the results of the auditors' analysis was not crossed-referenced to the supporting documentation.

GAGAS A8.02a (2007 revision) and A7.02a (2011 revision) state that referencing is a process in which an experienced auditor who is independent of the audit checks that statements of facts, figures, and dates are correctly reported, that the findings are adequately supported by the evidence in the audit documentation, and that the conclusions and recommendations flow logically from the evidence. The QCAP states that during the IRR process, the person conducting the review verifies the statements of facts, figures, and dates are correctly reported, that the findings

are adequately supported by evidence in the audit documentation, and that the conclusions and recommendations flow logically from the evidence. Also, evidence must be accurate to assure DLA management that what is reported is credible and reliable.

For the Audit of Real Property Additions, Disposals and Construction-in-Progress, Report No. DAF-12-15, the IRR process did not detect that the findings were not adequately supported by evidence in the audit documentation, and that the conclusions and recommendations did not flow logically from the evidence. The audit report for this project was rescinded only after the DLA OIG Quality Assurance Division reviewed the audit documentation and report and determined that significant issues existed that required immediate attention. Based on their review of the audit documentation, the Quality Assurance Division believed the audit work was deficient because the audit team did not evaluate the effectiveness of information systems controls, and the audit report contained recommendations that did not flow logically from the finding and conclusions, and were not directed at resolving the root causes of the reported findings.

For the Audit of the SRM Program-Europe, Report No. DLA OIG FY14-04, we identified instances where statements in the audit report were not supported, totals (for example, exceptions noted during testing) in the audit report differentiated from the totals in the audit documentation, and references provided were inadequate and incorrect. For the references that were inadequate and incorrect, DLA OIG audit staff was adamant that the reviewer was provided the correct references by a member of the audit team or the reviewer was able to locate the appropriate references themselves. However, there was no documentation to substantiate their claims. The DoD OIG review team was able to locate correct references after reviewing the audit documentation.

For the Audit of DLA Non-Energy Physical Process, Report DAF-12-05, a chart summarizing the auditors' review of the nonenergy physical inventory processes at the seven sites the DLA OIG visited was not cross-referenced to the supporting working papers.

The individuals who conducted the IRR for these two projects signed the IRR certifications even though IRR deficiencies we noted existed. Although the IRR deficiencies identified for these two audit projects did not limit the reliability of the audit reports, this quality control measure was compromised because without adequate and appropriate references, the accuracy and reliability of information was questionable.

Quality Control Checklists for Performance Audits

The QCAP states that to ensure each performance audit has been performed in accordance with standards, the AIC and audit manager must complete the Quality Control Checklist for Performance Audits. For two of the six projects reviewed, the quality control checklists that were prepared were incomplete because they did not include required approvals for the AIC and/or audit manager.

For the Audit of DLA Disposition Services Contingency Operations in Afghanistan, the checklist did not contain the approval of the audit manager. For the Audit of Real Property Additions, Disposals and Construction-in-Progress, 27 of the 46 questions in the checklist did not contain the approval of the AIC.

Also, we identified four audit projects that had sections of the checklist completed even though the audit documentation and/or report did not comply with GAGAS and the QCAP.

Recommendations, Management Comments, and Our Response

Recommendation 3

We recommend that the Deputy Inspector General for Auditing, DLA, update the Quality Control Checklist for Performance Audits (Report Writing section) to include a section that pertains to the GAGAS requirements when auditors do not comply with applicable requirements and use a modified GAGAS statement in audit reports.

DLA Comments:

The Deputy Inspector General for Auditing, DLA concurred. DLA OIG will review and update the DLA OIG QCAP Checklist for Performance Audits to include a section pertaining to compliance with GAGAS reporting requirements and ensure that the GAGAS statement used in the report complies with the QCAP.

Our Response:

DLA comments were responsive to the recommendation. No additional comments are needed.

Recommendation 4

We recommend that the Director, DLA, remind auditors to follow QCAP guidance pertaining to audit evidence and documentation, reporting, cross-referencing processes, and completing quality control checklists.

DLA Comments:

The Director, DLA concurred. The DLA IG will ensure the DLA Director reminds auditors to follow the DLA QCAP guidance pertaining to audit evidence and documentation, reporting, cross-referencing processes, and completing quality control checklists.

Our Response:

DLA comments were responsive to the recommendation. No additional comments are needed.

Appendix D

Summary of the Results of Our Interviews

We interviewed 20 DLA OIG audit staff and managers to determine their knowledge of DLA OIG audit policies and procedures and GAGAS. The interviews consisted of questions related to the DLA OIG audit policies and procedures and GAGAS. Table D contains a summary of the results of the responses received.

Table D. Summary of Responses Received

Areas Pertaining to DLA OIG Audit Division Policies and GAGAS Standards	Responses to Questions
1. Awareness of the DLA OIG Audit Organization's Policies and Procedures	Staff and managers were aware of the audit policies and procedures. The staff and managers felt the policies and procedures were appropriately designed; however, several DLA OIG auditors we interviewed felt the DLA OIG audit organization's policies and procedures needed to be better tailored to the DLA OIG and reflect the GAGAS Conceptual Framework for Independence.*
2. Independence	Staff and managers indicated that they did not encounter any external or organizational independence impairments when performing their work. Staff and managers stated they were aware of the GAGAS Conceptual Framework for Independence, and that it is used during the planning phase of their audits.
3. Competence	Staff responses indicated that the competency requirement was fulfilled.
4. Quality Control and Assurance	Staff and managers provided examples that indicated they had an extensive understanding of quality control procedures.
5. Planning (Key Decisions)	Staff and management involved with audit planning documented key planning decisions and communicated with the client throughout the planning phase.
6. Planning (Risk)	Staff and managers stated that risk assessments (audit and fraud) are conducted and documented for each audit.
7. Supervision	All staff and managers stated that they received or provided adequate supervision.

Areas Pertaining to DLA OIG Audit Division Policies and GAGAS Standards	Responses to Questions
8. Audit Documentation	Staff and managers provided examples of procedures in place to ensure that audit reports are properly supported.
9. Evidence	Staff and managers provided examples of actions taken to ensure the audit report is supported by the audit evidence.
10. Reporting (Timeliness)	Staff and managers provided examples of procedures in place to ensure that information provided in reports is current and relevant.

* We reviewed the DLA OIG's policies related to the GAGAS Conceptual Framework for Independence. We deemed the policies to be appropriate.

Appendix E

Scope and Methodology

We reviewed 10 audit projects, which included 6 completed audits and 4 terminated audits, to assess the adequacy of the DLA OIG audit organization's compliance with quality control policies, procedures, and standards. In performing our review, we considered the requirements of quality control standards contained in the July 2007 and December 2011 revisions of GAGAS issued by the Comptroller General of the United States.[4] GAGAS 3.96 states (2011 revision):

> The audit organization should obtain an external peer review 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 in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We performed this review from September 2013 to October 2014 in accordance with standards and guidelines established in the March 2009 (updated November 2012) CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General. In addition, we conducted this quality control review in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation. In performing this review, we assessed, reviewed, and evaluated audit documentation for completed and terminated audits; interviewed DLA OIG auditors; and reviewed DLA OIG audit policies and procedures that were published on July 15, 2011, and then revised on April 18, 2012.

Initially, we judgmentally selected five completed audit projects from a universe of eight reports issued by the DLA OIG during the period of October 1, 2012, to September 30, 2013. In March 2014, after the DLA OIG rescinded one of the audit reports included in the initial sample, we judgmentally selected one additional audit project to review. The additional project was selected from the universe of six reports issued by the DLA OIG during the period of October 2013 through March 2014. In selecting the audits to review, we worked with the DLA OIG to establish the universe of reports that were issued during the review period. We then selected audits that were more recent to review the most current quality assurance procedures being used.

[4] The 2011 revisions of GAGAS apply to performance audits beginning on or after December 15, 2011. Of the six completed projects (performance audits) we reviewed, three began prior to December 15, 2011, and three began after December 15, 2011.

Also, we reviewed the audit documentation for all the audits that were terminated during the review period to determine whether DLA OIG auditing staff documented the results of the work to the date of termination and why the audit was terminated. We also reviewed the method used to communicate the reason for terminating the audit to those charged with governance and appropriate officials of the audited entity. We determined the audits were terminated in accordance with the DLA OIG's policies and procedures.

The following tables identify the specific audit projects reviewed. The Type of Review column contains information that was determined by the report GAGAS compliance statement and/or the type of review described in the final report.

E-1. Completed Audit Projects

Audit Title	Date Audit Was Announced	Report Number and Issuance Date	Type of Review
DLA Transaction Services Automatic Addressing System (DAAS)	July 20, 2011	DAI-11-08, April 8, 2013	Performance
Audit of the SRM Program - Europe	July 20, 2011	DLA OIG FY14-04, December 5, 2013	Performance
DLA OIG DIACAP FISMA Project	July 28, 2010	DAO-10-19, December 27, 2011	Performance
Real Property Additions, Disposals and Construction-in-Progress*	February 13, 2012	DAF-12-15, December 20, 2012	Performance
DLA Non-Energy Physical Inventory Process	February 13, 2012	DAF-12-05, February 25, 2013	Performance
DLA Disposition Services Contingency Operations in Afghanistan	February 16, 2012	DAO-12-07, January 15, 2013	Performance

* The audit report for this project was rescinded by the DLA OIG audit organization in March 2014.

E-2. Terminated Audits

Audit Title and Project Code	Date Audit Was Announced	Date Audit Was Terminated
Audit of the Capital Purchase Program (Project Code DAO-10-24)[1]	July 1, 2010	May 30, 2013
Audit on the Distribution Standard System Financial System Audit (Project Code DAI-12-10)	April 10, 2012	November 2, 2012
Audit of DLA's Support to Hurricane Sandy (Project Code DAO -13-01)	January 31, 2013	February 28, 2013
Audit of Performance Based Incentive Fees (Project Code DAO-10-18)[2]	April 2, 2010	March 21, 2013

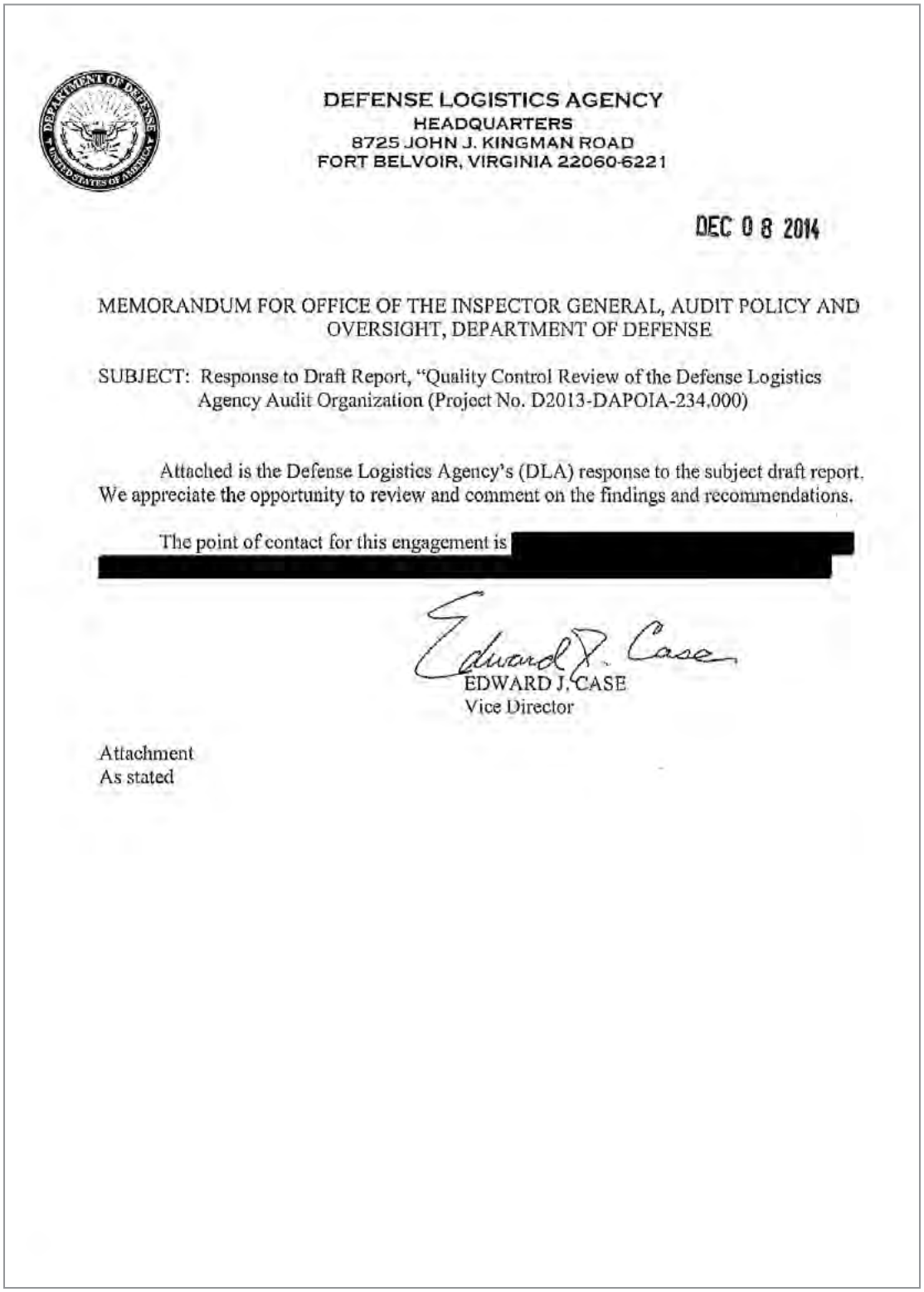
[1] Project Code DAO-10-24 was terminated due to the significant lapse in time that occurred since initiating the audit in July 2010 and because of the age of the data included in the scope of the audit.

[2] Project Code DAO-10-18 was terminated due to quality issues identified during DLA's management review process and the reassignment of key audit personnel to positions outside of the DLA OIG audit organization.

Our review would not necessarily disclose all weaknesses in the system of quality control or 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. Departures from GAGAS can result from misunderstood instructions, mistakes in judgment, carelessness, or other human errors. Projecting any evaluation of a quality control system 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

Defense Logistics Agency



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DEC 0 8 2014

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, AUDIT POLICY AND OVERSIGHT, DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Report, "Quality Control Review of the Defense Logistics Agency Audit Organization (Project No. D2013-DAPOIA-234.000)

Attached is the Defense Logistics Agency's (DLA) response to the subject draft report. We appreciate the opportunity to review and comment on the findings and recommendations.

The point of contact for this engagement is [redacted]

Edward J. Case
EDWARD J. CASE
Vice Director

Attachment
As stated

Defense Logistics Agency (cont'd)

SUBJECT: DLA RESPONSE TO DRAFT REPORT "QUALITY CONTROL REVIEW OF THE DEFENSE LOGISTICS AGENCY AUDIT ORGANIZATION"

In response to the DoD IG Quality Control Review of the DLA OIG (Audit) for the period ended September 30, 2013, we have concurred with and described our implementation methodology for each of the four recommendations. All corrective actions will be completed no later than June 2015. Additionally, the DLA OIG will begin working with DoD IG to schedule our peer review for the period October 1, 2013 to September 30, 2016 so that it is completed in a timely manner.

Recommendation 1: We recommend the Inspector General, DLA, update the Quality Control and Assurance Procedures (QCAP) to include policies and procedures that explain how to (1) evaluate the impact of previously performed non-audit services on auditors' independence on a prospective or current engagement and (2) address any threats identified.

DLA Management Comments: Concur. Additional guidance will be added to the DLA Quality Control and Assurance Procedures (QCAP) to evaluate the impact of previously performed non-audit services on auditors' independence on a prospective or current engagement. If significant threats/risks are identified, appropriate mitigating controls will be addressed and documented. During the independence review conducted on each project, the audit team will consider the impact of previously performed non-audit services on auditors' independence. If significant threats are identified, appropriate mitigating controls will be incorporated into the audit plan. ECD: March 2015.

Recommendation 2: We recommend that Inspector General, DLA, take additional steps to ensure the audit organization complies with GAGAS and the QCAP. The quality control review results showed that the audit organization needs to take additional steps because the current policy and procedures do not appear to be enough to consistently achieve a reasonable level of compliance. Additional steps should include:

- Provide training to the staff to improve the audit organization's understanding and knowledge of the following GAGAS standards: professional judgment, supervision, and audit evidence and documentation (accessing the reliability of computer-generated data).
- Establish a 6-month plan identifying high-risk areas to review for compliance with internal quality control policies and procedures and GAGAS.

DLA Management Comments: Concur. Additional training will be provided to auditors-in-charge in the last week of January 2015 in the internally developed school, with the remaining auditors attended by June 2015. The course will provide training on how audits should be conducted to ensure conformity with generally accepted government auditing standards (GAGAS) and the DLA QCAP as well as standardizing operations between teams. The course will walk the auditors through the entire audit cycle and will include exercising and documenting professional judgment, documenting supervision of auditors, and assessing the reliability of computer-generated data, independence, and internal controls. Subsequent to the completion of the semi-annual internal quality assurance reviews, audit leadership will discuss the results of

Defense Logistics Agency (cont'd)

high-risk areas identified and emphasize the importance of compliance with GAGAS and the DLA QCAP during the performance and review of future audit projects. ECD: June 2015.

Recommendation 3: We recommend that the Deputy Inspector General for Auditing, DLA, update the Quality Control Checklist for Performance Audits (Report Writing section) to include a section that pertains to the GAGAS requirements when auditors do not comply with applicable requirements and use a modified GAGAS statement in audit reports.

DLA Management Comments: Concur. DLA OIG will review and update the DLA OIG QCAP Checklist for Performance Audits to include a section that pertains to compliance with GAGAS reporting requirements and ensuring that the GAGAS statement used in the report complies with QCAP section4400. ECD: January 2015.

Recommendation 4: We recommend that the Director, DLA, remind auditors to follow QCAP guidance pertaining to audit evidence and documentation, reporting, cross-referencing processes, and completing quality control checklists.

DLA Management Comments: Concur. The DLA IG will ensure the DLA Director reminds auditors to follow the DLA QCAP guidance pertaining to audit evidence and documentation, reporting, cross-referencing processes, and completing quality control checklists. ECD: December 2014.

Acronyms and Abbreviations

AIC	Auditor in Charge
CIGIE	Council of Inspectors General on Integrity and Efficiency
CIP	Construction-in-Progress
DAAS	Defense Automatic Addressing System
DFAMS	Defense Fuel Automated Management System
DLA	Defense Logistics Agency
EBS	Enterprise Business System
FISMA	Federal Information Security Management Act
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IRR	Independent Reference Review
MIDAS	Management Information Distribution and Access System
OIG	Office of the Inspector General
QCAP	Quality Control and Assurance Procedures
SRM	Sustainment, Restoration, and Modernization
SRM-E	Sustainment, Restoration, and Modernization-Energy

Whistleblower Protection
U.S. Department of Defense

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

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