



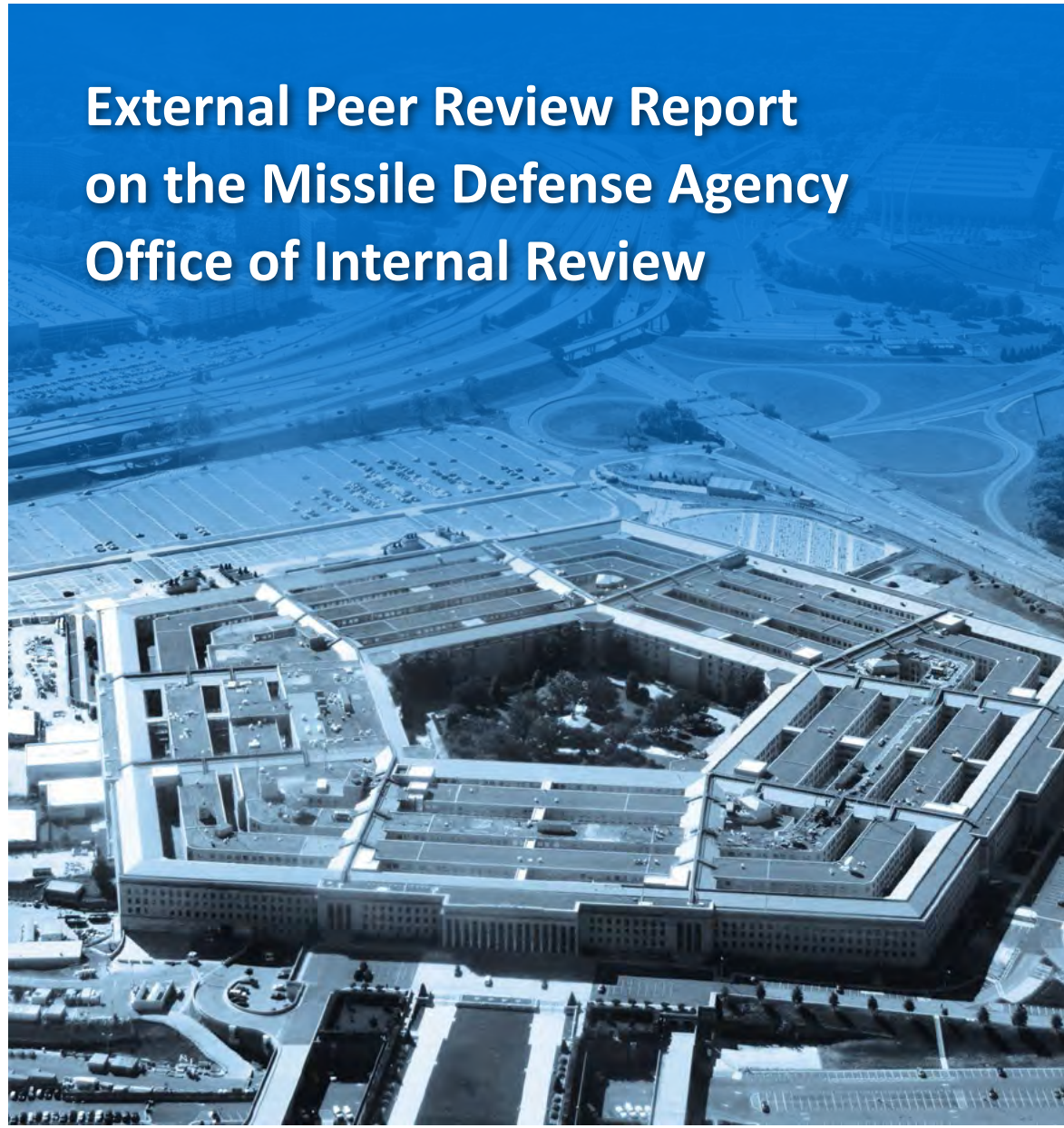
# INSPECTOR GENERAL

*U.S. Department of Defense*

MAY 14, 2015



## External Peer Review Report on the Missile Defense Agency Office of Internal Review



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

May 14, 2015

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY OFFICE OF INTERNAL REVIEW

SUBJECT: External Peer Review Report on the Missile Defense Agency Office of  
Internal Review (Report No. DODIG-2015-123)

Attached is the External Peer Review Report on the Missile Defense Agency Office of Internal Review conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Your response to the draft report is included as Enclosure 2 with excerpts and our position incorporated into the relevant sections of the report.

We appreciate the cooperation and courtesies extended to our staff during the review.

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

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

Attachments





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

May 14, 2015

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY OFFICE OF INTERNAL REVIEW

SUBJECT: System Review Report (Report No. DODIG-2015-123)

We have reviewed the system of quality control for the Missile Defense Agency Office of Internal Review (MDA OIR) in effect for the year ended September 30, 2014. A system of quality control encompasses the MDA OIR's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to Government Auditing Standards (GAS). The elements of quality control are described in GAS. The MDA OIR is responsible for establishing and maintaining a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the MDA OIR's compliance with standards and requirements based on our review.

Our review was conducted in accordance with GAS and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed MDA OIR personnel and obtained an understanding of the nature of the MDA OIR's audit organization and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits, nonaudit services, and administrative files to test for conformity with professional standards and compliance with the MDA OIR's system of quality control. The audits selected represented a reasonable cross section of the MDA OIR's audit organization, with emphasis on higher risk audits. We selected nonaudit services that were completed during our review period. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with MDA OIR's management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the MDA OIR's audit organization. In addition, we tested compliance with the MDA OIR's quality control policies and procedures to the extent that we considered appropriate. These



tests covered the application of the MDA OIR's policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Enclosure 1 of this report identifies the MDA OIR offices that we visited and the audits and nonaudit services that we reviewed.

We noted the following deficiencies during our review.

## **Deficiency 1**

### **MDA OIR Did Not Update Nonaudit Services Policies**

During December 2011, the Government Accountability Office issued revised generally accepted government auditing standards (GAGAS), which were effective for work beginning on or after December 15, 2011.<sup>1</sup> The revision contained new requirements for assessing and documenting potential impairments to independence for nonaudit services. MDA Instruction 7600.05-INS, "Internal Review Policies and Procedures," January 25, 2012 states that the document will be reviewed annually from the initial effective date and modified to reflect any changes in GAGAS or other references significantly impacting the policies and procedures of the Instruction. However, the January 25, 2012, Instruction, which superseded the April 2008 version, did not include guidance on conducting nonaudit services or procedures for assessing and documenting auditor independence for nonaudit services.

DoD Office of Inspector General (OIG) Report, DoDIG-2014-89, "Implementation of 2011 Generally Accepted Government Auditing Standards Independence Standards at the DoD Audit Organizations," June 30, 2014, recommended that the Director, MDA, ensure that the MDA OIR create internal policies and procedures detailing how nonaudit service requests will be assessed and documented for potential impairments to independence. The Director agreed with the recommendation and indicated that MDA was updating its internal audit policies and procedures for assessing and documenting potential impairments to independence for nonaudit services. The estimated completion date was the fourth quarter of FY 2014.

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<sup>1</sup> The 2011 Revision of GAGAS is effective for financial audits and attestation engagements for periods ending on or after December 15, 2012, and for performance audits beginning on or after December 15, 2011. Early implementation was not permitted.

The MDA OIR audit policies in effect during our review period were dated January 25, 2012. During our review, the MDA OIR provided us with a draft update dated October 10, 2014, and a subsequent final draft update dated November 24, 2014, both of which were intended to supersede the January 25, 2012, version. We evaluated the November 24, 2014, version and provided suggested changes to the MDA OIR. However, we used the January 25, 2012, version when evaluating MDA OIR's system of quality control because it was effective during our review period.

On March 25, 2015, MDA OIR issued policy guidance in the form of a Standard Operating Procedure (SOP) on accepting and performing nonaudit services. This guidance corrected this deficiency; therefore, there is no recommendation.

## **Deficiency 2**

### ***MDA OIR Performed and Reported Nonaudit Services as Special Projects***

GAS 2.12 states it does not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. GAS 3.34 states that before an auditor agrees to perform a nonaudit service of an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in the aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. MDA Instruction 7600.05-INS did not contain guidance on conducting nonaudit services or evaluating auditor independence when conducting nonaudit services. Instead, the Instruction provided guidance on conducting special projects, which are considered nonaudit services under GAGAS.

The Instruction defined special projects as:

Special projects are initiated on an as needed basis or special request from authorized individuals within the Agency. Internal Review provides quick reaction non-GAGAS audits as requested. Special projects do not always require a formal audit report, but results are provided in a timely manner to relevant MDA officials.

MDA OIR's use of the term "special projects" incorrectly represented the type of work performed when results of the nonaudit services were reported to MDA officials. The Instruction did not include policies and procedures for staff to follow when directed to conduct nonaudit services. Additionally, the absence of policies and procedures for conducting nonaudit services and assessing auditor independence increased the potential for noncompliance with GAGAS independence standards.

On March 25, 2015, MDA OIR issued policy guidance in the form of an SOP on conducting nonaudit services and evaluating auditor independence. This guidance corrected this deficiency. However, training should be obtained to better understand the policies for conducting nonaudit services.

### *Recommendation*

The Director, MDA OIR should provide training for managers on nonaudit services and the application of the conceptual framework for independence in order to comply with GAGAS.

### *Management Comments*

The Director, MDA OIR concurred with the recommendation and stated that the MDA OIR staff will receive training on nonaudit services and the application of the conceptual framework from the DoD OIG in the 3<sup>rd</sup> quarter, FY 2015.

### *Our Response*

The MDA OIR comments met the intent of the recommendation. No further response is required.

## **Deficiency 3**

### ***MDA OIR Did Not Document GAGAS Independence Requirements for Nonaudit Services***

GAS 3.34 provides the following independence requirements for conducting nonaudit services.

Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing the service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs. A critical component of this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed. The auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed.

For five of the nonaudit services reviewed, the MDA OIR could not provide documentation of its independence analysis or consideration of management's ability to oversee the nonaudit services performed.



GAS 3.39 states auditors should establish and document their understanding with the audited entity for which the auditors will perform a nonaudit service. For three of the five nonaudit services reviewed, the MDA OIR could not provide documentation for:

- audited entity's acceptance of its responsibilities; and
- the auditor's responsibilities.

GAS 3.59 states although insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under GAGAS quality control and assurance requirements. The MDA OIR's lack of independence documentation for GAGAS nonaudit services indicated a weakness in its system of quality control and assurance. Further, the absence of required documentation could potentially cause noncompliance with GAGAS nonaudit services independence standards.

On March 25, 2015, MDA OIR issued policy guidance in the form of an SOP on documenting the independence requirements for nonaudit services. This guidance corrected this deficiency; therefore, there is no recommendation.

## **Deficiency 4**

### ***MDA OIR Was Not Annually Monitoring Quality***

MDA OIR has not been performing the annual monitoring of quality requirement.

GAS 3.95 states:

The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

During the period of our review, it was determined that the MDA OIR has not been performing the annual monitoring of quality.

On March 25, 2015, MDA OIR issued policy guidance in the form of an SOP on quality assurance, and procedures for annual monitoring of quality was contained within this guidance. This guidance corrected this deficiency; therefore, there is no recommendation.

## Deficiency 5

### ***MDA OIR Audit Reports Did Not Include Views of Responsible Officials and the Auditors' Evaluation of That Information***

MDA OIR auditors did not include management comments in all four audit reports reviewed. They also did not include their evaluation of that information.

GAS 7.32 states that auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions. GAS 7.33 states that including the responsible officials' views results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take.

GAS 7.34 further states that when auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. Finally, GAS 7.35 states that auditors should also include in the report an evaluation of the comments, as appropriate.

Additionally, MDA Instruction 7600.05-INS, Enclosure 3, "IR Procedures," paragraph 3c(1) states, "Issue a final audit report containing the audited organization's formal response and IR's evaluation of the response, with a formal request to the D<sup>2</sup> for approval."

The current process for handling management comments on the draft report is the MDA OIR creates a Staff Summary Sheet<sup>3</sup> for routing to the Director, MDA, which includes three attachments: the final audit report, management's comments on the draft report, and a corrective action plan. However, management comments were not summarized in the final report.

As of February 27, 2015, the MDA OIR has begun including the views of responsible officials and the auditors' evaluation of that information in their audit reports. This action corrected this deficiency; therefore, there is no recommendation.

Enclosure 2 of this report includes MDA OIR's response to the draft report.

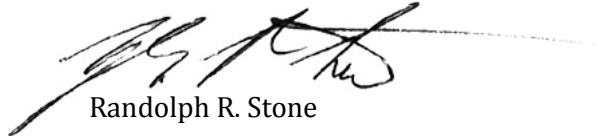
In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of the MDA OIR in effect for the year ended September 30, 2014, has

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<sup>2</sup> The "D" stands for Director of MDA.

<sup>3</sup> A Staff Summary Sheet is an internal routing document that serves as a record for internal coordination and summary of actions. It is used to present a position to a senior official for approval or disapproval.

been suitably designed and complied with to provide the MDA OIR with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The MDA OIR has received an External Peer Review rating of *pass with deficiencies*. As is customary, we have issued a letter dated May 14, 2015 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

A handwritten signature in black ink, appearing to read 'R. Stone', with a long horizontal flourish extending to the right.

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

Enclosures

# Enclosure 1

## Scope and Methodology

We tested compliance with the MDA OIR's system of quality control to the extent we considered appropriate. These tests included a review of 4 of 14 audit reports issued during the period October 1, 2012, through September 30, 2014. Table 1 lists the audit reports reviewed. In addition, we tested GAGAS and MDA OIR policy compliance for nonaudit services and continuing professional education hours. Table 2 lists the nonaudit services reviewed. We were unable to review any internal quality control reviews because the MDA OIR did not perform any such reviews. In addition, we interviewed personnel to determine their understanding of and compliance with quality control policies and procedures. Finally, we reviewed MDA OIR audit policies and procedures that were published on January 25, 2012.

We visited the MDA OIR sites located in Fort Belvoir, VA and Huntsville, AL.

*Table 1. Reviewed Audits Performed by MDA OIR*

Audit Title	Date Audit Was Announced	Report Number and Issuance Date	Type of Review
Travel Card Management and Temporary Duty	March 1, 2013	A-13-05, April 2, 2014	Performance
Missile Defense Agency's Service Contracts	April 9, 2013	A-13-09, July 29, 2014	Performance
Ballistic Missile Defense System Packing, Handling, and Storage Operations	August 28, 2013	A-13-12, March 26, 2014	Performance
Depot Maintenance Reporting	Formal Announcement Memo Not Issued; however, an E-Tasker dated February 28, 2014, informed MDA management of the upcoming audit.	A-14-04, September 22, 2014	Performance

*Table 2. Reviewed Special Projects (Nonaudit Services) Performed by MDA OIR*

Project Number/Title	Beginning Date	Report Date	Deliverable	MDA Project Type*
P-12-03 MDA Certification Process of External Training Completion	July 17, 2012	January 15, 2013	Memorandum Report	Evaluation
P-12-04 Intragovernmental Trading Partners	July 23, 2012**	January 17, 2013	Memorandum Report	Assessment
P-12-04-01 Follow On, Intragovernmental Trading Partners	February 14, 2013	June 20, 2013	Memorandum Report	Assessment
P-12-05 Full-up Transport, Special Project	August 30, 2012	January 28, 2013	Memorandum Report	Review
P-12-06 Special Project for Director, Technical Intelligence/Special Program Administration (DEI)	May 1, 2012	November 1, 2012	Briefing Slides	Special Project

\* All deliverables contained the words “special project” in the memorandum report or briefing slides. Project numbers P-12-03, P-12-04, P-12-04-01, and P-12-05 contained additional descriptive information regarding the work performed in either the memo report title or report body.

\*\* The MDA OIR indicated that the reviewers should use July 23, 2012, as the beginning date for both P-12-04 and P-12-04-01 (the follow on project). However, we used the beginning date of February 14, 2013, for the follow on project because that is the date of the announcement memo.

## Enclosure 2

### Management Comments



IR

DEPARTMENT OF DEFENSE  
MISSILE DEFENSE AGENCY  
5700 18<sup>TH</sup> STREET  
FORT BELVOIR, VIRGINIA 22060-5573

April 24, 2015

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

SUBJECT: Response to Department of Defense Inspector General (DoD IG)

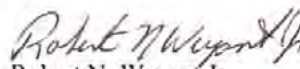
Thank you for giving the Missile Defense Agency (MDA) Internal Review (IR) the opportunity to review and provide comments to the draft report for Project D2015-DAP0IA-0024.000, "Quality Control of the MDA Internal Review Function." IR comments follow:

**DoDIG Recommendation:** The Director, MDA IR should provide training for managers on non-audit services and the application of the conceptual framework for independence in order to comply with Generally Accepted Government Auditing Standards (GAGAS).

**MDA Response to Recommendation:** Concur. MDA IR will receive training from the DoD IG on performing non-audit services and the application of the conceptual framework. The estimated completion date is FY15 – third quarter.

If you have any questions, please contact [REDACTED]

[REDACTED]

  
Robert N. Weyant Jr.  
Director, MDA internal Review





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

May 14, 2015

MEMORANDUM FOR DIRECTOR, MISSILE DEFENSE AGENCY OFFICE OF INTERNAL REVIEW

SUBJECT: Letter of Comment (Report No. DODIG-2015-123)

We have reviewed the system of quality control for the Missile Defense Agency Office of Internal Review (MDA OIR) in effect for the year ended September 30, 2014, and have issued our final report on May 14, 2015, in which the MDA OIR received a rating of pass with deficiencies. The system review report should be read in conjunction with the comment in this letter, which was considered in determining our opinion. The finding described below was not considered to be of sufficient significance to affect the opinion expressed in the report.

**Finding. The MDA OIR Was Not Signing and Dating Final Reports**

The MDA OIR issues final and memorandum reports. While they were signing and dating the memorandum reports, the MDA OIR was not signing and dating its final reports. Signing and dating final reports is not specifically required by generally accepted government auditing standards; however, it is our opinion, and a leading practice, that final reports issued by an audit organization should be signed and dated by the head of the audit organization or an appropriately designated individual. As of February 27, 2015, the MDA OIR had begun signing and dating its final reports. This action corrected this finding; therefore, there is no recommendation.

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

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight



# **Whistleblower Protection**

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

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