System Review Report

November 13, 2012

Lynne M. Halbrooks
Principal Deputy Inspector General
United States Department of Defense
Office of Inspector General
4800 Mark Center Drive
Alexandria, VA 22350-1500

Dear Ms. Halbrooks:

We have reviewed the system of quality control for the audit organization of the United States Department of Defense, Office of Inspector General (DoD OIG), in effect for the year ended March 31, 2012. A system of quality control encompasses DoD OIG’s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to Government Auditing Standards. The elements of quality control are described in Government Auditing Standards. DoD OIG is responsible for designing a system of quality control and complying with it to provide DoD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and DoD OIG’s compliance with these standards based on our review.

Our review was conducted in accordance with Government Auditing Standards and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed DoD OIG personnel and obtained an understanding of the nature of the DoD OIG audit organization, and the design of DoD OIG’s system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with DoD OIG’s system of quality control. Except as discussed below, the engagements selected represented a reasonable cross-section of DoD OIG’s audit organization, with emphasis on higher-risk engagements. Before concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with DoD OIG 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 DoD OIG’s audit function. In addition, we tested compliance with DoD OIG’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of
DoD OIG’s policies and procedures for selected engagements. 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.

*DoD OIG notified us that documentation for report number 2011-089 was on a server that was decommissioned after DoD OIG moved to a new office location. As a result, we were unable to review all of the work papers for this DoD OIG assignment in accordance with the peer review guidelines established by CIGIE.*

In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review the one engagement performed by DoD OIG as described above, the system of quality control for the audit organization of DoD OIG in effect for the year ended March 31, 2012, has been suitably designed and complied with to provide DoD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations may receive a rating of “pass,” “pass with deficiencies,” or “fail.” DoD OIG has received a peer review rating of “pass” *(with a scope limitation).*

David A. Montoya, Inspector General

Enclosures

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¹ Project number D2010-D000FG-0096-001: Reducing Vulnerabilities at the Defense Information Systems Agency Defense Enterprise Computing Centers
The Honorable David A. Montoya  
Inspector General  
U.S. Department of Housing and Urban Development  
451 7th Street S.W., Room 8286  
Washington, DC 20410

Dear Mr. Montoya:

This is in reply to your draft report on the external quality control review of the Department of Defense Office of the Inspector General Audit organization which we received on October 5, 2012. We appreciate the in-depth review that your staff performed on our quality control system. We also appreciate the quality and the professionalism of the peer review team and their assistance to our organization.

Thank you for the opportunity to review the draft report. We agree with the peer review findings, recommendations, “pass” rating, and concur with the report as written. Therefore we have no comments to the draft report.

If you have any questions or concerns as you prepare your final report, please contact Mr. Daniel Blair, Deputy Inspector General for Auditing at (703) 604-8901.

Lynne M. Halbrooks  
Principal Deputy

OCT 31 2012
SCOPE AND METHODOLOGY (Enclosure 1)

Scope and Methodology

We tested compliance with the United States Department of Defense, Office of Inspector General (DoD OIG), audit organization’s system of quality control to the extent we considered appropriate. Our review period was from April 1, 2011, through March 31, 2012 (the semiannual reporting periods ending September 30, 2011, and March 31, 2012). We selected 14 of 111 audit, attestation, and monitoring reports for review. Of the 14 reports selected, 11 were performance audit reports, one was a financial audit report, one was an attestation report, and one report was by an independent public accountant (IPA) whose work was monitored by DoD OIG.

However, we were unable to review one performance audit due to a scope limitation: DoD OIG notified us that documentation for report number 2011-089 was on a server that was decommissioned after DoD OIG moved to a new office location. As a result, we were unable to review all of the work papers for this DoD OIG assignment in accordance with the peer review guidelines established by the Council of the Inspectors General on Integrity and Efficiency Audit Committee.

For the one engagement where the IPA served as the principal auditor, DoD OIG contracted for and monitored the audit of the “DoD Military Retirement Fund, FY 2011 and FY 2010, Basic Financial Statements.” We reviewed the associated work paper files documenting DoD OIG’s monitoring activities. DoD OIG also contracted for certain other engagements that were to be performed in accordance with Government Auditing Standards. We also reviewed two of five internal quality control reviews performed by DoD OIG during the period.

We visited DoD OIG’s main office at 4800 Mark Center Drive in Alexandria, VA.

Reviewed performance engagements performed by DoD OIG

<table>
<thead>
<tr>
<th>Report Number</th>
<th>Report Date</th>
<th>Directorate ²</th>
<th>Division</th>
<th>Report Title</th>
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<tbody>
<tr>
<td>2012-042</td>
<td>01/20/2012</td>
<td>ACM</td>
<td>D000CG</td>
<td>Naval Air Systems Command Lakehurst Contracts Awarded Without Competition Were Properly Justified</td>
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<td>11/02/2011</td>
<td>ACM</td>
<td>D000CD</td>
<td>Acquisition of the Multi-Platform Radar Technology Insertion Program Needs Transparency and Accountability</td>
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<td>2012-006</td>
<td>11/01/2011</td>
<td>ACM</td>
<td>D000AS</td>
<td>Counter Narcoterrorism Technology Program Office Task Orders Had Excess Fees, and the Army Was Incorrectly Billed</td>
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<td>2011-098</td>
<td>08/16/2011</td>
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<td>D000DA</td>
<td>Defense Finance and Accounting Service Needs to Improve Controls Over the Completeness and Accuracy of the Cash Management Report</td>
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<td>2012-027</td>
<td>12/01/2011</td>
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<td>D000DD</td>
<td>Deficiencies in Journal Vouchers That Affected the FY 2009 Air Force General Fund Statement of Budgetary Resources</td>
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² Directorate abbreviations and index of project numbers are listed in Enclosure 2
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<td>08/12/2011</td>
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<td>Improvements Are Needed to the DoD Information Assurance Vulnerability Management Program</td>
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<td>2011-116</td>
<td>09/30/2011</td>
<td>ROS</td>
<td>D000LF</td>
<td>American Recovery and Reinvestment Act Wind Turbine Projects at Long-Range Radar Sites in Alaska Were Not Adequately Planned</td>
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<td>2011-077</td>
<td>06/24/2011</td>
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<td>D000LG</td>
<td>Improved Management Can Reduce Costs of the Maintenance, Repair, and Operations Prime Vendor Contract for the Republic of Korea</td>
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<td>08/19/2011</td>
<td>JSAO</td>
<td>D000JA</td>
<td>DoD Needs Bi-Directional Flow Agreements and Adequate Tracking Mechanisms on the Northern Distribution Network</td>
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*Engagement not reviewed due to a scope limitation

**Reviewed financial and attestation engagements performed by DoD OIG**

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<td>2012-040</td>
<td>01/19/2012</td>
<td>DPAO</td>
<td>D000DE</td>
<td>Independent Auditor’s Report on the Attestation of the Existence, Completeness, and Rights of the Department of the Navy’s Ships and Submarines, Trident Missiles, and Satellites</td>
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**Reviewed monitoring files of DoD OIG for contracted engagements**

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ABBREVIATIONS AND INDEX OF PROJECT NUMBERS (Enclosure 2)

ABBREVIATIONS FOR DEPARTMENT OF DEFENSE DIRECTORATES

ACM    Acquisition and Contract Management
DPAO   Department of Defense Payments and Accounting Operations
FMR    Financial Management and Reporting
JSAO   Joint and Southwest Asia Operations
ROS    Readiness, Operations, and Support

INDEX OF PROJECT NUMBERS

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<td>2012-008</td>
<td>11/04/2011</td>
<td>FMR</td>
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* Engagement not reviewed due to a scope limitation
November 13, 2012

Lynne M. Halbrooks  
Principal Deputy Inspector General  
United States Department of Defense  
Office of Inspector General  
4800 Mark Center Drive  
Alexandria, VA 22350-1500

Dear Ms. Halbrooks:

We have reviewed the system of quality control for the audit organization of the United States Department of Defense, Office of Inspector General (DoD OIG), in effect for the year ended March 31, 2012, and have issued our report on that review, dated November 2, 2012, in which DoD OIG received a rating of pass (with a scope limitation). The scope limitation occurred because DoD OIG notified us that documentation for report number 2011-0891 was on a server that was decommissioned after the DoD OIG moved to a new office location. As a result, we were unable to review all of the work papers for this assignment in accordance with the peer review guidelines established by the Council of Inspectors General on Integrity and Efficiency.

That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

**Finding 1. Statements of Independence – Not Completed or Signed When Initially Assigned to the Project**

Generally accepted government auditing standards (GAGAS) require that the audit organization and the individual auditor be free from personal, external, and organizational impairments to independence and avoid the appearance of such impairments of independence. For every audit, DoD OIG’s quality control policies and procedures require each member of the audit team to complete a statement of independence (SOI). Specifically, section 1.1 of DoD OIG’s Audit Handbook states that for each project, all auditors, supervisory auditors, evaluators, consultants, technical experts, and independent reference reviewers must certify their independence or impairment to independence when initially assigned to the project. For 1 of the 13 audits reviewed, 1 team member, who charged 57 hours to the project, did not complete an SOI. For 7 of the 13 audits reviewed, SOIs for 22 team members were not completed when the auditors were initially assigned to the projects. The SOIs were signed from 34 to 227 days after being assigned to the project.

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1 Project number D2010-D000FG-0096.001 - Reducing Vulnerabilities at the Defense Information Systems Agency Defense Enterprise Computing Centers
We note that DoD OIG guidance for SOIs changed as of October 1, 2011. Specifically, staff in the Office of the Deputy Inspector General for Auditing (including the Deputy Inspector General, Principal Assistant Inspector General, Assistant Inspectors General, Deputy Assistant Inspectors General, and editors) is required to complete an annual statement of independence. Project managers will still ensure independence for each audit by loading the annual statements of independence from DAMIS (DoD OIG’s management information system) into their project files or the project management system and discussing the current independence status with the staff as soon as the staff is assigned to the project.

Recommendation – DoD OIG should emphasize current policy on SOIs to ensure that all auditors, supervisory auditors, evaluators, consultants, technical experts, and independent reference reviewers certify their independence annually and that project managers include the annual SOIs in the project files and have the discussion regarding staffs’ current independence status as soon as they are assigned to the project.

Views of Responsible Official: Agree.

Finding 2. Quality Control – Portions of Final Report Not Referenced or Verified

Section 4.7 of DoD OIG’s Audit Handbook states that all draft and final reports must be subject to an independent reference review (IRR). An IRR is a thorough and independent evaluation of the completeness and accuracy of the evidence that supports a report. The IRR is more than a determination that a report has been accurately referenced and that project documentation exists. It is a thorough and independent evaluation of the completeness and accuracy of the evidence that supports the report. The independent reference reviewer should use his or her professional judgment when reviewing the final report. Regardless of who conducted the review of the draft report, the independent reference reviewer must review any new material and any significant changes made to the final report since the draft report was certified. The independent reference reviewer may choose to recheck the references for information that did not change but is not required to. The independent reference reviewer for a final report should document the scope of his or her review as part of the certification.

For 1 (report number 2012-0072) of the 13 audits reviewed, the work papers did not contain a final report with full references. It contained a draft report with references and a final report with references for highlighted portions, both of which underwent the IRR process. However, our review found that there were changes from the draft report to the final report that were not referenced or verified. While it did not appear that the overall findings changed, there were additional details in the final report that were not referenced or verified.

DoD OIG officials informed us that it is their practice to make the audit teams inform the independent reference reviewer of any significant changes that are made to the reports. In addition, DoD OIG has indicated that the information that our review found that was not referenced or verified was referenced in other sections of the report. However, section 4.8 of DoD OIG’s Audit Handbook states that to ensure the accuracy of draft and final reports, *all*

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2 Project number D2010-D000CD-0187.000
statements of fact must be referenced to the supporting evidence in the project documentation. When the audit team does not reference facts in all sections of the report, it runs the risk of not meeting the GAGAS requirement for accurate reporting.

Recommendation – DoD OIG should ensure that a fully referenced final report is included in a project’s work papers. The audit teams must ensure that the independent reference reviewer is aware of and reviews any new material and any significant changes made to the final report after the draft report was certified.

Views of Responsible Official: Agree.


The reporting standards for financial audits in GAGAS 5.32 and standards for attestation engagements in GAGAS 6.44 state that if the auditors’ report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. GAGAS 6.46 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. The Financial Audit Manual, section 580.85, states that the auditor generally should include the agency’s written comments as an appendix to the report. These comments may include matters such as a description of corrective actions taken, the entity’s plans to implement new controls, or a statement indicating that management believes the cost of correcting a deficiency would exceed the benefits of doing so.

Of the 13 audits we reviewed, 1 was an attestation engagement (report number 2012-0403), and 1 was a financial audit (report number 2012-0214). Both of those reports identified deficiencies in internal control but did not report the views of responsible officials concerning the findings, recommendations, and planned corrective actions. The audit team for the attestation engagement stated that DoD OIG did not have fully developed guidance or formats for reporting the results of attestation engagements and was unsure of how to incorporate the views of responsible officials into the attestation report.

Recommendation – To comply with GAGAS and the Financial Audit Manual, DoD OIG should ensure that if the auditors’ report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, the auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

Views of Responsible Official: Agree.

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3 Project number D2011-D000DE-0239.000
4 Project number D2011-D000FE-0165.000

AICPA [American Institute of Certified Public Accountants] Professional Standards, AU [statements on auditing standards and related auditing interpretations] §551.06, provides guidelines for reporting on information accompanying the basic financial statement in an auditor-submitted document. Among the items listed is that the report should state that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The one financial audit (report number 2012-021) that we reviewed identified accompanying information to the financial statements and a disclaimer of opinion regarding it, but the report did not include the statement that the accompanying information “is presented for purposes of additional analysis and is not a required part of the basic financial statements.”

Recommendation – To comply with AICPA Professional Standards, DoD OIG should ensure that information accompanying the basic financial statements includes the statement that the accompanying information “is presented for purposes of additional analysis and is not a required part of the basic financial statements.”

Views of Responsible Official: Agree.


AICPA Professional Standards AU §532.02-19 provides requirements for issuing general-use and restricted-use reports. AU §532.12 states that if an auditor issues a single combined report covering both matters that require restriction and matters that do not ordinarily require restriction, the use of such a single combined report should be restricted to the specified parties. AU §532.19 states that a restricted-use audit report should contain the following elements in a separate paragraph at the end of the report:

- A statement indicating that the report is intended solely for the information and use of the specified parties,
- An identification of the specified parties to whom use is restricted, and
- A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

The one financial audit (report number 2012-021) that we reviewed did not contain a separate paragraph at the end indicating that it was intended solely for the information and use of management as well as those charged with governance, any other within the entity, and, if applicable, legislative or regulatory bodies and was not intended to be and should not be used by anyone other than these specified parties.

Recommendation – To comply with AICPA Professional Standards, DoD OIG management should ensure that restricted-use reports contain a separate paragraph at the end indicating
that they are intended solely for the information and use of management, as well as those charged with governance, in conformity with applicable reporting standards.

Views of Responsible Official: Agree.

David A. Montoya, Inspector General

Enclosure
The Honorable David A. Montoya  
Inspector General  
U.S. Department of Housing and Urban Development  
451 7th Street S.W., Room 8286  
Washington, DC 20410

Dear Mr. Montoya:

This is in reply to your draft comments letter and report on the external quality control review of the Department of Defense Office of the Inspector General Audit organization which we received on October 5, 2012. We appreciate the in-depth review that your staff performed on our quality control system. We also appreciate the quality and the professionalism of the peer review team and their assistance to our organization.

We appreciate the in-depth review of the peer review team. Their suggestions will further enhance our ability to maintain full compliance with government auditing standards. We will address the conditions that the team noted during their review. Our comments to the draft letter of comment are enclosed.

If you have any questions on our comments, please contact Mr. Daniel Blair, Deputy Inspector General for Auditing at (703) 604-8901.

Lynne M. Halbrooks  
Principal Deputy

Enclosure:  
As stated
Comments to the U.S. Department of Housing and Urban Development Office of Inspector General
Findings and Recommendations from the Draft Letter of Comment

Scope Limitation
The scope limitation occurred because DoD OIG notified us that documentation for report number 2011-089 was on a server that was decommissioned after the DoD OIG moved to a new office location. As a result, we were unable to review all of the work papers for this assignment in accordance with the peer review guidelines established by the Council of Inspectors General on Integrity and Efficiency.

DoD OIG Response
We agree and the Office of the Deputy Inspector General for Auditing will update the Audit Handbook to include additional procedures to address backing up all audit documentation by the audit teams. We will coordinate with the Office of Administration and Management, Information Systems Directorate to assist in developing backup procedures regarding decommissioned servers that include the individual who makes the decision that the server(s) is no longer needed. We will also coordinate with the Office of Administration and Management, Records Management Office to determine whether we should report missing documentation to National Archives and Records Administration for the 6 projects associated with this server and how to report the missing documentation.

Finding 1. Statements of Independence – Not Completed or Signed When Initially Assigned to the Project
Generally accepted government auditing standards (GAGAS) require that the audit organization and the individual auditor be free from personal, external, and organizational impairments to independence and avoid the appearance of such impairments of independence. For every audit, DoD OIG’s quality control policies and procedures require each member of the audit team to complete a statement of independence (SOI). Specifically, section 1.1 of DoD OIG’s Audit Handbook states that for each project: all auditors, supervisory auditors, evaluators, consultants, technical experts, and independent reference reviewers must certify their independence or impairment to independence when initially assigned to the project. For 1 of the 13 audits reviewed, 1 team member who charged 57 hours to the project did not complete an SOI. For 7 of the 13 audits reviewed, SOIs for 22 team members were not completed when the auditors were initially assigned to the projects. The SOIs were signed from 34 to 227 days after being assigned to the project.
We note that DoD OIG guidance for SOIs changed as of October 1, 2011. Specifically, staff in the Office of the Deputy Inspector General for Auditing (including the Deputy Inspector General, Principal Assistant Inspector General, Assistant Inspectors General, Deputy Assistant Inspectors General, and editors) is required to complete an annual statement of independence. Project managers will still ensure independence for each audit by loading the annual statements of independence from DAMIS [DoD OIG’s management information system] into their project files and discussing the current independence status with the staff as soon as the staff is assigned to the project either in the project files or the project management system.

Recommendation 1
DoD OIG should emphasize current policy on SOIs to ensure that all auditors, supervisory auditors, evaluators, consultants, technical experts, and independent reference reviewers certify their independence annually and that project managers include the annual SOIs in the project files and have the discussion regarding staffs’ current independence status as soon as they are assigned to the project.

DoD OIG Response
We agree and the Office of the Deputy Inspector General for Auditing’s independence is an integral part of the audit process. The Deputy Inspector General for Auditing will continue to promote the importance of the staff’s independence during meetings with senior leadership within Audit. We will also continue to emphasize the current SOI policy and ensure that all applicable staff include their annual SOIs in the project documentation. The Assistant Inspector Generals will be responsible for ensuring that their respective audit teams comply with our SOI requirements.

Finding 2. Quality Control – Portions of Final Report were not referenced or verified
Section 4.7 of DoD OIG’s Audit Handbook states that all draft and final reports must be subject to an independent reference review (IRR). An IRR is a thorough and independent evaluation of the completeness and accuracy of the evidence that supports a report. The IRR is more than a determination that a report has been accurately referenced and that project documentation exists. It is a thorough and independent evaluation of the completeness and accuracy of the evidence that supports the report. The independent reference reviewer should use his or her professional judgment when reviewing the final report. Regardless of who conducted the review of the draft report, the independent reference reviewer must review any new material and any significant changes made to the final report since the draft report was certified. The independent reference reviewer may choose to recheck the references for information that did not change but is not required to. The independent reference reviewer for a final report should document the scope of their review as part of the certification.
For 1 (report number 2012-007) of the 13 audits reviewed, the work papers did not contain a final report with full references. It contained a draft report with references and a final report with references for highlighted portions, both of which underwent the IRR process. However, our review found that there were changes from the draft report to the final report, which were not referenced or verified. While it did not appear that the overall findings changed, there were additional details in the final report that were not referenced or verified.

DoD OIG informed us that it is their practice to make the audit teams inform the independent reference reviewer of any significant changes that are made to the reports. In addition, DoD OIG has indicated that the information that our review found that were not reference or verified were referenced in other sections of the report. However, section 4.8 of DoD OIG’s Audit Handbook states that to ensure the accuracy of draft and final reports, ALL statements of fact must be referenced to the supporting evidence in the project documentation. When the audit team does not reference facts in all sections of the report, they run the risk of not meeting GAGAS requirement for accurate reporting.

Recommendation 2
DoD OIG should ensure that a fully referenced final report is included in a project’s work papers. The audit teams must ensure that the independent reference reviewer is aware of and review any new material and any significant changes made to the final report after the draft report was certified.

DoD OIG Response
We agree and will continue to emphasize the importance that our audit reports are appropriately referenced and supported.

The reporting standards for financial audits in GAGAS 5.32 and standards for attestation engagements in GAGAS 6.44 state that if the auditors’ report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. GAGAS 6.46 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. The Financial Audit Manual, section 580.85, states that the auditor generally should include the agency’s written comments as an appendix to the report. These comments may include matters such as a description of corrective actions taken, the entity’s plans to implement new controls, or
a statement indicating that management believes the cost of correcting a deficiency would exceed the benefits of doing so.

Of the 13 audits we reviewed, 1 was an attestation engagement (report number 2012-040) and 1 was a financial audit (report number 2012-021). Both of those reports identified deficiencies in internal control but did not report the views of responsible officials concerning the findings, recommendations, and planned corrective actions. The audit team for the attestation engagement stated that DoD OIG did not have fully developed guidance or formats for reporting the results of attestation engagements and was unsure of how to incorporate the views of responsible officials into the attestation report.

**Recommendation 3**
To comply with GAGAS and the Financial Audit Manual, DoD OIG should ensure that if the auditors’ report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, the auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

**DoD OIG Response**
We agree, however, the audit team did consider management’s informal comments to the draft report in preparation of the final report. For future reports, we will emphasize the importance of including management’s comments to the report or including a statement if management doesn’t provide official written comments.

**Finding 4. Financial Audit: Reporting – Accompanying Information Presented for Additional Analysis**
AICPA [American Institute of Certified Public Accountants] Professional Standards, AU [statements on auditing standards and related auditing interpretations] §551.06, provides guidelines for reporting on information accompanying the basic financial statement in an auditor-submitted document. Among the items listed is that the report should state that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The one financial audit (report number 2012-021) that we reviewed identified accompanying information to the financial statements and a disclaimer of opinion regarding it, but the report did not include the statement that the accompanying information “is presented for purposes of additional analysis and is not a required part of the basic financial statements.”

**Recommendation 4**
To comply with AICPA Professional Standards, DoD OIG should ensure that information accompanying the basic financial statements includes the statement that the accompanying
information “is presented for purposes of additional analysis and is not a required part of the basic financial statements.”

DoD OIG Response
We agree and will ensure that similar reports in the future include the appropriate disclaimer.

AICPA Professional Standards AU §532.02-19 provides requirements for issuing general-use and restricted-use reports. AU §532.12 states that if an auditor issues a single combined report covering both matters that require restriction and matters that do not ordinarily require restriction, the use of such a single combined report should be restricted to the specified parties. AU §532.19 states that a restricted-use audit report should contain the following elements in a separate paragraph at the end of the report:

• A statement indicating that the report is intended solely for the information and use of the specified parties,
• An identification of the specified parties to whom use is restricted, and
• A statement that the report is not intended to be and should not be used by anyone other than the specified parties.

The one financial audit (report number 2012-021) that we reviewed did not contain a separate paragraph at the end indicating that it was intended solely for the information and use of management as well as those charged with governance, any other within the entity, and, if applicable, legislative or regulatory bodies and was not intended to be and should not be used by anyone other than these specified parties.

Recommendation 5
To comply with AICPA Professional Standards, DoD OIG management should ensure that restricted use reports contain a separate paragraph at the end indicating that they are intended solely for the information and use of management, as well as those charged with governance, in conformity with applicable reporting standards.

DoD OIG Response
We agree and will ensure that similar reports in the future include the appropriate paragraph.