

Inspector General

United States
Department of Defense



Oversight Review

August 15, 2011

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

Report No. D-2011-6-009

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Acronyms and Abbreviations

AFAA	Air Force Audit Agency
SAP	Special Access Programs
GAGAS	Generally Accepted Government Auditing Standards



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

AUG 15 2011

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Quality Control Review Of Air Force Audit Agency's Special Access
Program Audits (Report No. D-2011-6-009)

We are providing this report for your information and use. We reviewed the Air Force Audit Agency's (AFAA) system of quality control over Special Access Programs (SAP) audits for the two years ended September 30, 2010. The generally accepted government auditing standards (GAGAS) requires that an audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system in place and undergo an external peer review at least once every three years by reviewers independent of the audit organization being reviewed. As the organization that has audit policy and oversight responsibilities for audits in the DOD, we conducted the external quality control review of the AFAA SAP audits in conjunction with the Army Audit Agency's review of the AFAA non-SAP audits.

An audit organization's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance of meeting the objectives of quality control. We tested the AFAA SAP system of quality control for audits to the extent considered appropriate.

In our opinion, the system of quality control for the audit function of AFAA SAP in effect for the period ended September 30, 2010 was designed in accordance with quality standards established by GAGAS. Further, the internal quality control system was operating effectively to provide reasonable assurance that SAP audit personnel were following established policies, procedures, and applicable auditing standards. Accordingly, we are issuing a pass opinion on your SAP audit quality control system for the review period ended September 30, 2010.

Appendix A contains comments, observations where AFAA can improve its quality control system. Appendix B contains the scope and methodology of the review, and Appendix C provides the full text of management comments in response to the draft report. We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Carolyn R. Davis at (703-604-8877) (DSN 664-8877), Carolyn.Davis@dodig.mil.

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

Randolph R. Stone, SES
Deputy Inspector General
Policy and Oversight

Appendix A. Comments, Observations, and Recommendation

We are issuing a pass opinion because we determined that the AFAA quality control system is adequately designed and functioning as prescribed.

We identified one area of concern related to supervision. We judgmentally tested the reports for compliance with GAGAS and AFAA audit policies in nine areas to include independence, professional judgment, competence, audit planning, supervision, evidence, audit documentation, reporting, and quality control.

Supervision

We identified that for one audit reviewed the working papers did not include an audit plan showing evidence of supervisory review before the audit had started. In another audit some working papers did not contain evidence of supervisory review. In addition, we found that the supervisor did not sign and date all of the audit review records.

GAGAS 7.54 (2007 Revision) requires that reviews of audit work should be documented. The nature and extent of the review of audit work may vary depending on a number of factors, such as the size the audit organization, the significance of the work, and the experience of the staff.

Air Force Audit Agency Instruction, 65-101, Financial Management, Installation Level Audit dated November 19, 2010, Section 2.8 states that the auditor must prepare a written audit program before starting any in-depth audit work. Team chiefs will review the program for adequacy and approve the program before the auditor starts audit testing.

Air Force Audit Agency Instruction 65-103, Audit Management and Administration, dated April 6, 2006, Section 6.2.3 states that whether accomplished electronically or manually, the Audit Review Record must include the supervisor's initials and date, and the working papers must contain clear evidence of supervisory review.

Although we identified lack of documentation of supervisory review, we found support that the supervisor was generally kept informed of the audit status through biweekly status reports and through quarterly site visits to audit staff locations to perform audit reviews.

Recommendation: We recommend that the AFAA Representative for Special Programs follow Air Force Audit Agency instructions relating to audit supervision to include that Air Force Audit Agency audit review records are reviewed, initialed, and dated and audit documentation includes an approved audit program.

Management Comments: AFAA Acting Director of Operations concurred with the recommendation and stated that the AFAA Representative for Special Programs will follow AFAA instructions relating to audit supervision and ensure all working papers and AFAA audit review records are reviewed and initialed. Also, the AFAA Representative will verify project files include an approved audit program during supervisory reviews.

Reviewer Response: Management comments are responsive.

Appendix B. Scope and Methodology

We limited our review to the adequacy of AFAA SAP audits' compliance with quality policies, procedures, and standards. We judgmentally selected two SAP audits from a universe of eleven SAP audit reports issued by AFAA SAP auditors during FY 2009 and FY 2010. We tested each audit for compliance with the AFAA system of quality control. The Army Audit Agency conducted a review of the AFAA internal quality control system for non-SAP audits and/or attestation engagements and will issue a separate report. The Deputy Inspector General for Policy and Oversight will issue an overall opinion report on the AFAA internal quality control system that will include the combined results of the SAP and non-SAP audit reviews.

In performing our review, we considered the requirements of quality control standards contained in the 2007 Revision of GAGAS issued by the Comptroller General of the United States. GAGAS 3.56 states:

The audit organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.

We conducted this review in accordance with standards and guidelines established in the March 2009 Council of the Inspectors General on Integrity and Efficiency "Guide for Conducting External Peer Reviews of Audit Organizations of the Federal Offices of Inspector General," and the Quality Standards for Inspection and Evaluation. The Army Audit Agency used this guide in review of non-SAP audits at the AFAA. We reviewed audit documentation, interviewed AFAA auditors, and reviewed AFAA internal audit policies. We reviewed the DoD OIG Report No. D-2008-6-007, "Quality Control Review of the Air Force Audit Agency's Special Access Program Audits" dated August 15, 2008. We performed this review from April to June 2011 at two AFAA offices.

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

- Worked backward starting with the FY 2010 audits in order to review the most current quality assurance procedure in place.
- Avoided audits with multiple SAPs associated with the audit for ease of access.
- Avoided audits that have the same or similar titles to ensure review of multiple types of projects.

Limitations of Review. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of noncompliance with it because we based our review on selective tests. There are inherent limitations in considering the potential effectiveness of any quality control system. In performing most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other human factors. Projecting any evaluation of a quality control system into the future is subject to the risk that one or more procedures may become inadequate because conditions may change or the degree of compliance with procedures may deteriorate.

Appendix C. Air Force Audit Agency Comments



DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

2 August 2011

MEMORANDUM FOR OAIG-APO

FROM: HQ AFAA/DO
1500 West Perimeter Road, Suite 4700
Joint Base Andrews MD 20762

SUBJECT: Response to Draft Audit Report, Quality Control Review of Air Force Audit Agency
(AFAA) Special Access Program Audits

We reviewed the draft audit report pertaining to the AFAA special access program audits and concur with the issue and recommendation. The attached response provides our specific comments.

We express our thanks to your staff who conducted this review in a professional and effective manner. Please direct questions to Mr. Andy Giancola at (703) 697-3344.

Michael V. Barbino

MICHAEL V. BARBINO
Acting Director of Operations

Attachment:
AFAA Comments

**Management Comments to Quality Control Review of
AFAA Special Access Program Audits**

Appendix A.

Supervision

We identified that for one audit reviewed the working papers did not include an audit plan showing evidence of supervisory review before the audit had started. In another audit some working papers did not contain evidence of supervisory review. In addition, we found that the supervisor did not sign and date all of the audit review records.

AFAA Comments. AFAA management concurs with the issue identified.

Recommendation. We recommend that the AFAA Representative for Special Programs follow Air Force Audit Agency instructions relating to audit supervision to include that Air Force Audit Agency audit review records are reviewed, initialed, and dated and audit documentation includes an approved audit program.

AFAA Comments. AFAA concurs with the recommendation and provides the following comments: Concur. The AFAA Representative for Special Programs will follow AFAA instructions relating to audit supervision and ensure all working papers and AFAA audit review records are reviewed and initialed. Also, the AFAA Representative will verify project files include an approved audit program during supervisory reviews. (Closed - 1 August 2011)

Attachment



Inspector General Department of Defense

