



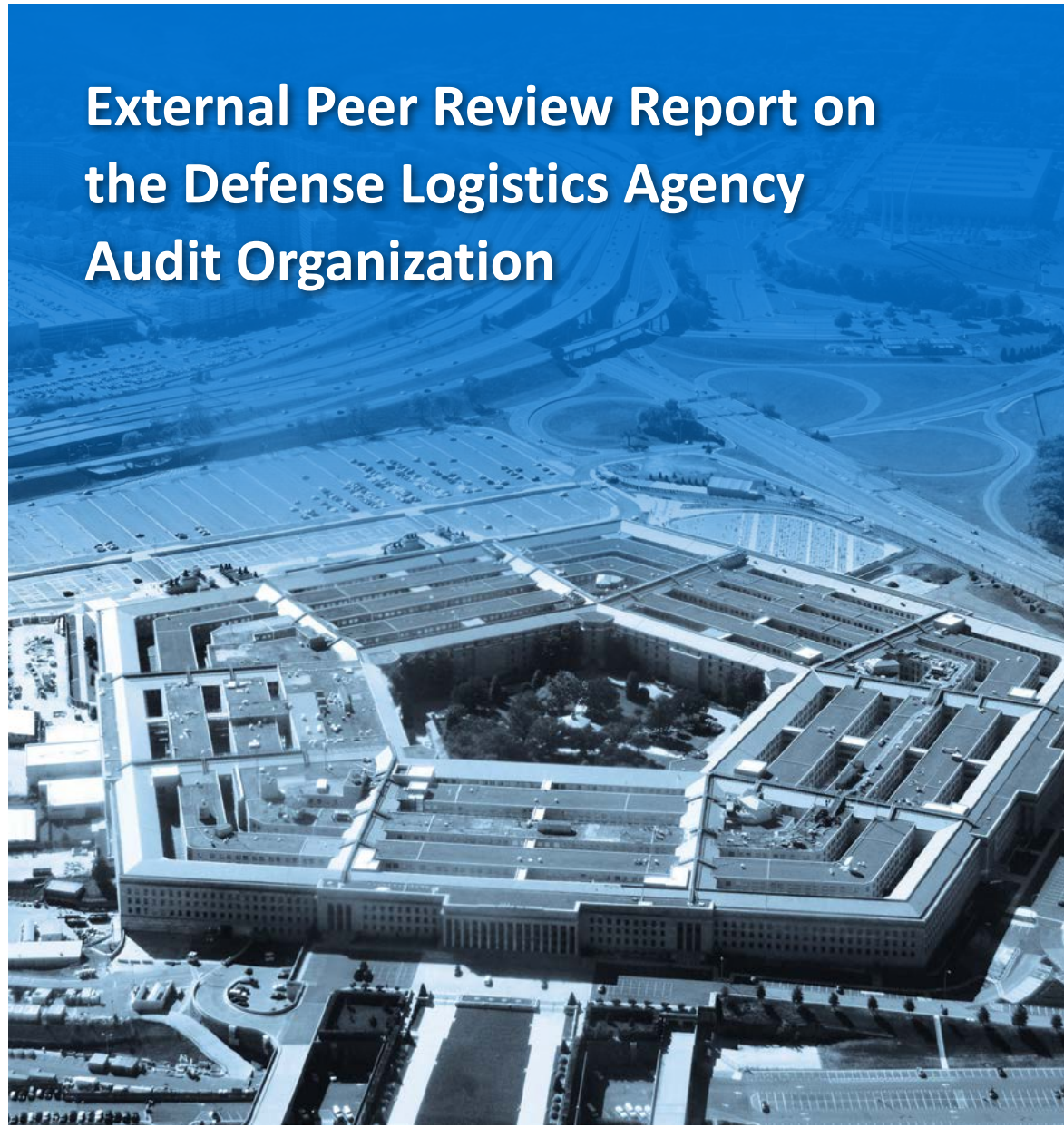
INSPECTOR GENERAL

U.S. Department of Defense

MAY 30, 2017



External Peer Review Report on the Defense Logistics Agency Audit Organization



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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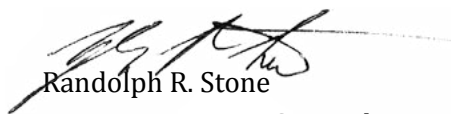
May 30, 2017

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: External Peer Review Report on the Defense Logistics Agency Audit Organization
(Report No. DODIG-2017-086)

Attached is the External Peer Review Report and the Letter of Comments on the Defense Logistics Agency Office of Inspector General audit organization 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*.

If you have any questions, please contact Carolyn R. Hantz at (703) 604-8877 or Carolyn.Hantz@dodig.mil.


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Attachments:
As stated





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

May 30, 2017

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: External Peer Review Report on the Defense Logistics Agency Audit Organization
(Report No. DODIG-2017-086)

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, 2016. A system of quality control encompasses the DLA OIG audit organization's organizational structure and 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 DLA OIG audit organization 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, based on our review, on the design of the system of quality and the DLA OIG audit organization's compliance with standards and requirements.

Our review was conducted in accordance with GAS 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*. During our review, we interviewed audit personnel and obtained an understanding of the nature of the DLA OIG 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 DLA OIG audit organization's system of quality control. The audits selected represented a reasonable cross section of the audit organization, with emphasis on higher risk audits. We selected nonaudit services that were completed during our review period. Before concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with DLA OIG audit organization'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 DLA OIG audit organization. In addition, we tested compliance with the DLA OIG audit organization's quality control policies and procedures to the extent that we considered appropriate.

These tests covered the application of the DLA OIG audit organization'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.

In our opinion, except for the deficiencies described in this report, the system of quality control for the DLA OIG audit organization in effect for the period ended September 30, 2016, was suitably designed and complied with to provide the audit organization 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 DLA OIG audit organization has received an External Peer Review rating of *pass with deficiencies*.

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 scope and methodology used for this review to include the audits and nonaudit services reviewed.

Nonaudit Services Provided by the DLA OIG Audit Organization

We found that when performing nonaudit services, the DLA OIG audit organization did not always comply with GAS and the DLA OIG *Quality Control and Assurance Procedures* (QCAP), April 28, 2012.¹ We identified noncompliances with GAS and QCAP for one of the two nonaudit services that the DLA OIG audit organization performed during the period of review.

Specifically, the U.S. Foods International, LLC, Food Service Contract project began as an audit, but was changed to a nonaudit service during the report writing phase (Report No. DAO-08-20) because the audit team concluded that sufficient audit work was not conducted to provide adequate support to the DLA OIG, Investigative Division.

¹ The April 18, 2012, version of the QCAP was updated on May 27, 2015, and the nonaudit service procedures remained the same. We referred to the DLA OIG service policies in the April 18, 2012, version of the QCAP because DLA OIG auditors were drafting the report for the project associated with Deficiencies 1 and 2 of this report in July 2012; the final report was issued on April 30, 2014.

We inquired about the date of the change to a nonaudit service; however, DLA OIG was unable to provide us that information because it was not documented in the working papers. As a result of the change, the DLA OIG audit organization had deficiencies regarding the use and application of GAS and internal policies and procedures.

Deficiency 1. Independence Assessment Not Completed for the Nonaudit Service

DLA OIG auditors did not document whether providing the nonaudit service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAS audit it performs.

GAS 2.13 states when audit organizations provide nonaudit services to entities for which they also provide generally accepted governing auditing standards (GAGAS) audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence. They should also respond to any identified threats to independence in accordance with the GAGAS independence standard. In addition, GAS 3.34 states that before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a 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.

Further, GAS 3.59 states that documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. Although insufficient documentation of an auditor's compliance with the independence standard does not impair independence, GAGAS requires appropriate documentation.

Finally, the DLA OIG QCAP states that before agreeing to perform a nonaudit service, audit management and the audit team must assess whether the requested service would create a threat to independence, either by itself or in the aggregate with other nonaudit services provided, with respect to the GAGAS-compliant work performed by the DLA OIG. Also, the QCAP states project documentation must include an analysis to show that the safeguards to independence have been considered and documented.

Recommendation, Management Comments, and Our Response

Recommendation 1

The Inspector General, Defense Logistics Agency, should issue a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff addressing the importance of documenting their assessment of the consideration of potential independence impairments before performing future nonaudit services.

Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the Inspector General, Defense Logistics Agency, will issue a memorandum to all auditors reminding them of the importance of documenting assessments of the consideration of potential independence impairments before performing nonaudit services. In addition, the Inspector General, Defense Logistics Agency, stated that this topic will be reviewed and reiterated with all auditors at the OIG training summit on May 15, 2017. The memorandum will be published in May 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 1 once we verify that the Inspector General, Defense Logistics Agency, issued a memorandum to the audit staff addressing the importance of documenting their assessment of the consideration of potential independence impairments before performing future nonaudit services. We expect to receive the memorandum no later than June 30, 2017.

Deficiency 2. Auditors Did Not Document Their Understanding of the Nonaudit Service Provided

DLA OIG auditors did not document their understanding of the nonaudit service provided with the audited entity's management or those charged with governance. DLA OIG audit management stated that there were several meetings with the audited entity's management regarding the type of services the audit organization would provide. However, there were no records of the meetings contained in the project file.

GAS 3.39 states that auditors should establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following:

- objectives of the nonaudit service,
- services to be performed,

- audited entity's acceptance of its responsibilities,
- auditor's responsibilities, and
- any limitations of the nonaudit service.

The DLA OIG QCAP states if accepted, the DLA OIG Audit Division will issue a Nonaudit Service Acknowledgement Memorandum. This memorandum confirms the understanding of the objectives, scope of services to be performed, auditor's responsibilities, any limitations of the nonaudit service, required products or deliverables, and agreed-to due dates or milestones based on the request and discussions with the requestor.

Recommendations, Management Comments, and Our Response

Recommendation 2

The Inspector General, Defense Logistics Agency, should issue a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff emphasizing the importance of documenting the auditor's understanding of the nonaudit service provided with the audited entity's management or those charged with governance.

Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the Inspector General, Defense Logistics Agency, will issue a memorandum to all auditors reminding them of the importance of documenting the auditor's understanding of the nonaudit service provided with the audited entity's management or those charged with governance. In addition, the Inspector General, Defense Logistics Agency, stated that this topic will be reviewed and reiterated with all auditors at the OIG training summit on May 15, 2017. The memorandum will be published in May 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 2 once we verify that the Inspector General, Defense Logistics Agency, issued a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff emphasizing the importance of documenting the auditor's understanding of the nonaudit service provided with the audited entity's management or those charged with governance. We expect to receive the memorandum no later than June 30, 2017.

Recommendation 3

The Inspector General, Defense Logistics Agency, should update the Defense Logistics Agency Office of Inspector General's Quality Control and Assurance Procedures to require:

- a. Documentation showing the consideration of Government Auditing Standards and Defense Logistics Agency Office of the Inspector General's policies and procedures as they relate to the change in project type.**
- b. Written approval of all project type changes.**
- c. Written notification to audit clients regarding the decision to change the project type, to include any changes in applicable Government Auditing Standards.**

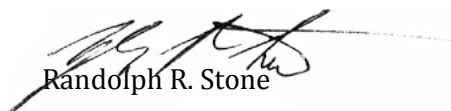
Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the Inspector General, Defense Logistics Agency, will update the QCAP to require additional documentation related to changing project type, approving changing project types, and providing written notification to audit clients when a project type changes. This action will be completed no later than September 30, 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 3 once we verify that the Inspector General, Defense Logistics Agency, updated QCAP requirements to include documentation showing the consideration of GAS and DLA OIG policies and procedures as they relate to the change in project type, written approval of all project type changes, and written notification to audit clients regarding the decision to change the project type, to include any changes in applicable *Government Auditing Standards*. We expect to receive the QCAP no later than October 30, 2017.

As is customary, we have issued a letter of comment dated May 30, 2017, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. We appreciate the courtesies extended to the staff. For additional information on this report, please contact Ms. Carolyn R. Hantz at (703) 604-8877 (DSN 664-8877) or Carolyn.Hantz@dodig.mil.


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosure:
As stated

Enclosure 1

Scope and Methodology

We tested compliance with the DLA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 3 of 16 performance audit reports the DLA OIG audit organization issued during the period of October 1, 2013 through September 30, 2016. Table 1 identifies the three performance audits we reviewed.

Table 1. Reviewed Audits Performed by DLA OIG Audit Organization

Audit Title	Report Date	Report Number	Type of Review
Audit of Produce Contract Oversight - Rebates	January 14, 2016	DLAOIG-FY16-06	Performance
Internal Controls Over the Sanitization of DLA Leased Printer Hard Drives Process	December 7, 2015	DLAOIG-FY16-05	Performance
Follow-up Audit of Common Access Cards Issued to Contractors at Headquarters	June 21, 2016	DLAOIG-FYH16-08	Follow-up

We also tested GAS and DLA OIG audit organization policy compliance for continuing professional education hours. We reviewed six projects² that were terminated, suspended, or canceled in FY 2016. Further, we reviewed two nonaudit services provided by the DLA OIG audit organization. Table 2 identifies the nonaudit services reviewed.

Table 2. Nonaudit Services Reviewed

Project Title	Report Date	Report Number
U.S. Foods International Food Service Contract	April 30, 2014	DAO-08-20
Review of IPA, Baker, Tilly, Virchow, Krause LLP, System Review Report	February 26, 2016	N/A*

* The Deputy Inspector General, DLA OIG Audit Division, issued a memorandum; however, the memorandum did not have a report or tracking number.

² The terminated or suspended audits reviewed are identified in the attached Letter of Comment, Table 4.

We visited the DLA OIG audit organization at Fort Belvoir, Virginia. Additionally, we interviewed 13 personnel within the DLA OIG audit organization to determine their understanding of and compliance with quality control policies and procedures. Also, we reviewed work performed for 4 of 16 projects for which the DLA OIG auditors were assigned as contracting officer's representatives. Table 3 identifies the projects we reviewed for which DLA OIG auditors were assigned as contracting officer's representatives. Finally, we reviewed the DLA OIG audit organization's audit policies and procedures.

Table 3. Contracting Officer's Representative Reports Reviewed

Contracting Officer's Representative Project Reviewed	Report Date	Report Number
Examination of the DLA General Fund Schedule of Budgetary Activity*	November 10, 2015	DLAOIG-FY16-02 DLAOIG-FY16-03 DLAOIG-FY16-04
DLA Defense Automated Addressing System	August 15, 2016	DLAOIG-FY16-09

* The DLA OIG issued three reports for project number FY15-DLAOIG-08. Our review included the project file and all three reports.



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

May 30, 2017

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: External Peer Review Report on the Defense Logistics Agency Audit Organization
(Report No. DODIG-2017-086)

We have reviewed the system of quality control for the DLA OIG audit organization in effect for the period ended September 30, 2016, and have issued our draft report on April 19, 2017, in which the DLA audit organization received a rating of pass with deficiencies. The enclosed 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 the report.

DLA Audit Organization

Finding 1. The Term “Audit” Was Included in the Final Report for the Nonaudit Service

In two instances, the DLA OIG auditors included the term “audit” in the report, Report No. DAO-08-20, “U.S. Foods International, LLC, Food Service Contract,” April 30, 2014. The term appeared in the transmittal memorandum when discussing the objective of the project and in an appendix to acknowledge the staff that contributed to the project. DLA OIG audit management stated this was an oversight, they thought the term had been removed in all instances. Although the error did not affect the findings and conclusions in the final report, usage of the correct terminology is imperative to properly identify the professional services performed by the auditors.

Recommendation, Management Comments, and Our Response

Recommendation 4

The Inspector General, Defense Logistics Agency, should determine whether to issue a memorandum to the recipients of Report No. DAO-08-20 to inform them that the term “audit” was inadvertently included in the report and does not properly identify the professional services performed by the Defense Logistics Agency Office of Inspector General audit organization. Also, the memorandum should inform the recipients that the error did not affect the findings and conclusions in the report.

Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the Scope and Methodology section of the report states:

We did not conduct this assessment in accordance with generally accepted government auditing standards issued by the Government Accountability Office. Rather, we conducted this work in support of a potential civil and criminal investigation under the direction of the investigative division of the DLA Office of Inspector General.

Further, the Inspector General, Defense Logistics Agency, stated he will inform users of the nonaudit services that Report No. DAO-08-20 inadvertently included the word “audit” in the transmittal memo and the staff listing when an audit was not performed, but this error does not affect the findings and conclusions of the report. This action will be completed in May 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 4 once we verify that the Inspector General, Defense Logistics Agency, issued a memorandum to the recipients of Report No. DAO-08-20. We expect to receive the memorandum no later than June 30, 2017.

Finding 2. The DLA OIG Audit Organization Developed an Annual Audit Plan with Only 2 Months Remaining in the Year

DoD Manual 7600.07, “DoD Audit Manual,” August 3, 2015, requires an audit organization to develop and maintain an audit plan. The audit planning cycle is generally conducted on an annual basis. DLA Instruction 5101, “Internal Audit Process,” September 6, 2011, emphasizes the requirement to create an annual audit plan. According to DoD Manual 7600.07, the audit plan should reflect an effective use of resources; however, DLA OIG did not effectively use audit resources due to delayed annual audit planning which resulted in six projects that were terminated, cancelled, or suspended. Specifically, we determined that the DLA OIG audit organization signed the FY 2016 audit plan on July 27, 2016, leaving only 2 months remaining in the fiscal year. According to DoD Manual 7600.07, one purpose of the annual audit plan is to ensure sufficiency of audit coverage and avoid duplication of audit. As a result of delayed audit planning, DLA OIG auditors performed extensive research on six projects that were terminated, canceled, or suspended³ in FY 2016. The terminated, canceled, and suspended audit projects had from 2 to 4 months of research completed before the termination, cancelation, or suspension. Further review of these six projects revealed that

³ The two projects identified by DLA OIG audit management as suspended were not identified on the DLA OIG FY 2017-19 audit plan.

five projects were terminated, canceled, or suspended at the valid request of management for reasons such as being audited by another audit organization, recently audited by another audit organization, and a change in the information system audited. Although, the projects were terminated, suspended, or cancelled as the result of valid requests, these projects represented an ineffective use of audit personnel due to the time and resources expended by those assigned to the projects. See Table 4 for the details of the terminated or suspended projects.

Table 4. DLA OIG Terminated or Suspended Audits

Project	Project Announced	Current Status	Date Research Began/ Announced	Date Terminated, Canceled, or Suspended	Management Requested Termination, Cancellation, or Suspension?	Reason for Termination
Review of DLA Energy's Contracting PCMs and SOPs	Yes	Terminated	7/14/2016	09/30/2016	Yes	Independent Public Accounting firm to perform financial statement audit in this area.
Zero Demand Inventory	No	Canceled	09/29/2015	02/09/2016	No	DoD OIG performing audit in the same area.
Subsistence Price Reasonableness	No	Canceled	10/19/2015	02/08/2016	Yes	DLA OIG recently completed an audit in this area.
Inventory Processes at DLA Distribution Europe	No	Canceled	10/14/2015	12/09/2015	Yes	DoD OIG recently completed an audit in this area.
NWRM Receipt Processes at DLA Disposition Services	Yes	Suspended	02/23/2016	04/28/2016	Yes	Information system updates occurring during the audit process.
Audit Readiness Strategy for Systems	Yes	Suspended	02/26/2016	04/24/2016	Yes	DoD OIG performing audit in the same area.

LEGEND

NWRM Nuclear Weapon Related Material

PCM Process Cycle Memorandums

SOP Standard Operating Procedures

Recommendation, Management Comments, and Our Response

Recommendation 5

The Inspector General, Defense Logistics Agency, should develop an annual audit plan before the beginning of the established annual audit plan cycle in accordance with DoD Manual 7600.07 and Defense Logistics Agency Instruction 5101 to make the best use of audit resources.

Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the current audit plan covers FY 2017 through FY 2019. This plan will be updated and published as the FY 2018 through FY 2020 audit plan no later than September 30, 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 5 once we verify that the Inspector General, Defense Logistics Agency, developed an annual audit plan in accordance with DoD Manual 7600.07 and Defense Logistics Agency Instruction 5101 to make the best use of audit resources. We expect to receive the annual audit plan no later than October 30, 2017.

Finding 3. DLA Auditors Did Not Make Recommendations to Address the Conditions and Causes of the Follow-Up Audit

GAS 7.28 states that auditors should recommend actions to correct deficiencies and other findings 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. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.

During the review of one of three performance audits reviewed, Audit Report DLAOIG FY16 08, "Common Access Cards Issued to Contractors at Headquarters," June 21, 2016, we determined the DLA OIG auditors did not make recommendations to correct the deficiencies identified in the follow-up audit. Instead, the auditors determined the recommendations from the original audit would remain open to address the deficiencies. However, the open recommendations did not address the identified conditions and causes of the follow-up audit.

For instance, the original DLA OIG report recommendation stated, "Require that contracting officers include FAR [Federal Acquisition Regulation] clause 52.204-9 in all service contracts when contractor personnel have routine access to DLA." The DLA audited entity developed and implemented DLA Standard Operating Procedures J72.001, "CAC Issuance and Accountability Process for DLA Contracts," requiring contracting officers to include the FAR clause.

During the follow-up audit, auditors determined the standard operating procedure “was not effectively implemented to ensure CAC requirements were addressed.” Instead of making a new recommendation to address the implementation of the standard operating procedures, DLA OIG auditors left the original recommendation open.

Recommendation, Management Comments, and Our Response

Recommendation 6

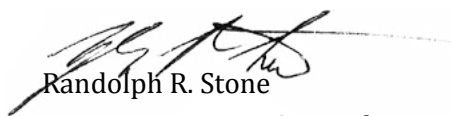
The Inspector General, Defense Logistics Agency, should issue a memorandum to Defense Logistics Agency Office of the Inspector General audit staff addressing the importance of making audit recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state that the actions recommended in accordance with Government Auditing Standard 7.28.

Inspector General, Defense Logistics Agency, Comments

The Inspector General, Defense Logistics Agency, agreed, stating that the Inspector General, Defense Logistics Agency, will issue a memorandum to all auditors reminding them of the importance of making audit recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended in accordance with GAS 7.28. In addition, the Inspector General, Defense Logistics Agency, stated that this topic will be reviewed and reiterated with all auditors at the OIG training summit on May 15, 2017. The memorandum will be published in May 2017.

Our Response

Comments from the Inspector General, Defense Logistics Agency, addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close Recommendation 6 once we verify that the Inspector General, Defense Logistics Agency, issued a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff addressing the importance of making audit recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended in accordance with GAS 7.28. We expect to receive the memorandum no later than June 30, 2017.



Randolph R. Stone

Deputy Inspector General
Policy and Oversight

Enclosure 2

Management Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

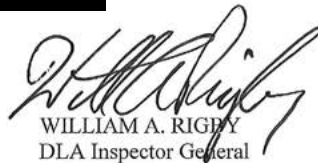
May 3, 2017

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

SUBJECT: External Peer Review Report on the Defense Logistics Agency Audit Organization
(Project No. D2016-DAPOIA-0223.000)

Thank you for the opportunity to review and comment on the peer review findings and recommendations. We appreciate you providing a comprehensive assessment of the DLA Inspector General Audit Division's compliance with Generally Accepted Government Auditing Standards (GAGAS) and recommendation to further ensure the quality of the audit mission. Attached are our comments to your report.

Please direct any comments or questions regarding our response to [REDACTED]


WILLIAM A. RIGBY
DLA Inspector General

Attachment:
As Stated

Management Comments (cont'd)

**Management Comments
on
External Peer Review Report on the Defense Logistics Agency Audit Organization
(Project No. D2016-DAPOIA-0223.000)**

The following are our comments to the 6 recommendation in the report and letter of comment:

Recommendation 1: The Inspector General, Defense Logistics Agency, should issue a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff addressing the importance of documenting their assessment of the consideration of potential independence impairments before performing future nonaudit services.

DLA Management Comments: Concur. The DLA OIG will issue a memorandum to all auditors reminding them of the importance of documenting assessments of the consideration of potential independence impairments before performing nonaudit services. We will complete this action in May 2017. Additionally, this topic will be reviewed and reiterated with all auditors at the OIG training summit the week of May 15, 2017.

Recommendation 2: The Inspector General, Defense Logistics Agency, should issue a memorandum to the Defense Logistics Agency Office of the Inspector General audit staff emphasizing the importance of documenting the auditor's understanding of the nonaudit service provided with the audited entity's management or those charged with governance.

DLA Management Comments: Concur. The DLA OIG will issue a memorandum to all auditors reminding them of the importance of documenting the auditor's understanding of the nonaudit service provided with the audited entity's management or those charged with governance. We will complete this action in May 2017. Additionally this topic will be reviewed and reiterated with all auditors at the OIG training summit the week of May 15, 2017.

Recommendation 3: The Inspector General, Defense Logistics Agency, should update the Defense Logistics Agency Office of Inspector General's *Quality Control and Assurance Procedures* to require:

- a. Documentation showing the consideration of *Government Auditing Standards* and Defense Logistics Agency Office of the Inspector General's policies and procedures as they relate to the change in project type.
- b. Written approval of all project type changes.
- c. Written notification to audit clients regarding the decision to change the project type, to include any changes in applicable *Government Auditing Standards*.

DLA Management Comments: Concur. The DLA OIG will update and review the *Quality Control and Assurance Procedures (QCAP)* to require documentation showing consideration of applicable policies and procedures and approval related to changing project type and providing

Management Comments (cont'd)

written notification to audit clients when a project type changes. The QCAP will be updated by September 30, 2017.

Recommendation 4: The Inspector General, Defense Logistics Agency, should determine whether to issue a memorandum to the recipients of Report No. DAO-08-20 to inform them that the term “audit” was inadvertently included in the report and does not properly identify the professional services performed by the Defense Logistics Agency Office of Inspector General audit organization. Also, the memorandum should inform the recipients that the error did not affect the findings and conclusions in the report.

DLA Management Comments: Concur. The scope and methodology section of the report states that “we did not conduct this assessment in accordance with generally accepted government auditing standards issued by the Government Accountability Office. Rather, we conducted this work in support of a potential civil and criminal investigation under the direction of the investigative division of the DLA Office of Inspector General.” We will inform users of the nonaudit services report number DAO-08-20 that it inadvertently included the word “audit” in the transmittal memo and the staff listing when an audit was not performed, but this error doesn’t affect the findings and conclusions of the report. We will complete this action in May 2017.

Recommendation 5: The Inspector General, Defense Logistics Agency, should develop an annual audit plan before the beginning of the established annual audit plan cycle in accordance with DoD Manual 7600.07 and Defense Logistics Agency Instruction 5101 to make the best use of audit resources.

DLA Management Comments: Concur. The current audit plan covers the fiscal years 2017 to 2019. This plan will be updated and published as fiscal year 2018 to 2020 audit plan in September 2017.

Recommendation 6: The Inspector General, Defense Logistics Agency, should issue a memorandum to Defense Logistics Agency Office of the Inspector General audit staff addressing the importance of making audit recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended in accordance with Government Audit Standard 7.28.

DLA Management Comments: Concur. The DLA OIG will issue a memorandum to all auditors reminding them of the importance of making audit recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended in accordance with Government Audit Standard 7.28. We will complete this action in May 2017. Additionally this topic will be reviewed and reiterated with all auditors at the OIG training summit the week of May 15, 2017.

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