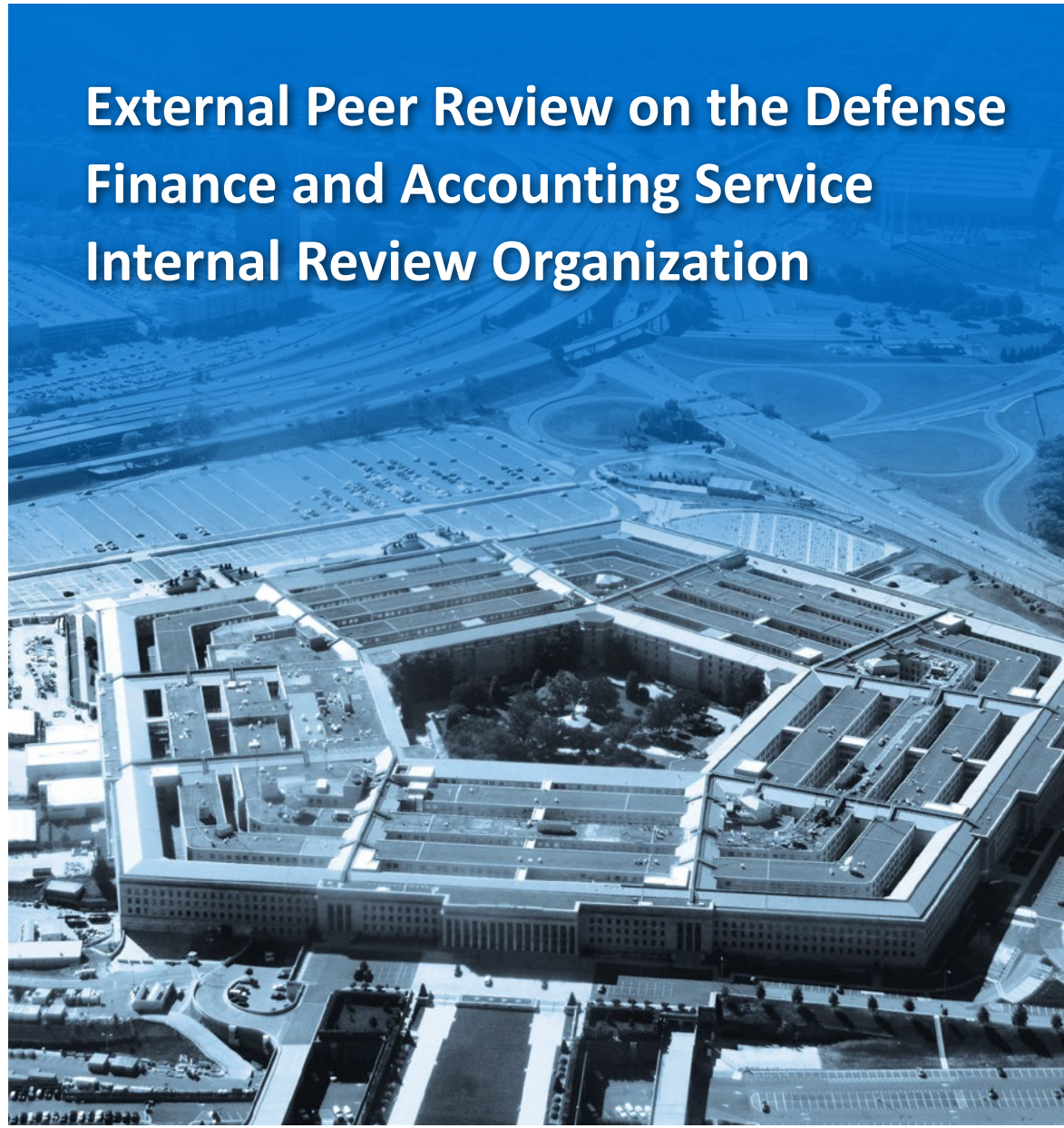




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 6, 2018



External Peer Review on the Defense Finance and Accounting Service Internal Review Organization

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE



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

March 6, 2018

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
PRINCIPAL DEPUTY DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INTERNAL REVIEW

SUBJECT: External Peer Review on the Defense Finance and Accounting Service
Internal Review Organization (Report No. DODIG-2018-082)

We are providing this report for your information and use. We conducted this peer review from August 2017 through January 2018 in accordance with the *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*. We considered management comments on a draft of this report when preparing the final report. Comments from the Defense Finance and Accounting Service Internal Review Director conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

[REDACTED] We appreciate the cooperation and assistance received during the quality control review.

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

Randolph R. Stone
Deputy Inspector General
Policy and Oversight



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

March 6, 2018

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
PRINCIPAL DEPUTY DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INTERNAL REVIEW

SUBJECT: External Peer Review Report of the Defense Finance and Accounting Service
Internal Review Organization (Report No. DODIG-2018-082)

We reviewed the system of quality control for the internal audit organization, Defense Finance and Accounting Service (DFAS) Internal Review (IR) in effect for June 30, 2017. The system of quality control encompasses DFAS IR'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. DFAS IR 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 DFAS IR's compliance with standards and requirements based on our review.

We conducted our review 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 DFAS IR personnel and obtained an understanding of the nature of DFAS IR's organization and the design of its system of quality control sufficient to assess the risks implicit in its organization. We selected audits and attestation engagements, collectively referred to as "audits," and administrative files to test for conformity with professional standards and compliance with DFAS IR's system of quality control. The audits we selected represent a reasonable cross-section of the DFAS IR organization, with sufficient coverage of assignment types and DFAS IR offices. Enclosure 1 of this report identifies the scope and methodology for this review, including the eight completed audits and one terminated audit we selected for GAS compliance testing. 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 DFAS IR audit organization. In addition, we tested compliance with DFAS IR's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of DFAS IR'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.

In our opinion, the system of quality control for DFAS IR in effect for June 30, 2017, has been suitably designed and complied with to provide DFAS IR 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. DFAS IR has received a rating of pass. Enclosure 2 includes the full text of management's comments.

As is customary, we have issued a letter of comment dated March 6, 2018, that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. [REDACTED]

[REDACTED] We appreciate the cooperation and assistance received during the quality control review.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosures:

As stated

Enclosure 1

Scope and Methodology

We tested compliance with DFAS IR audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 8 of 20 audit reports issued from July 1, 2016, through June 30, 2017. In addition, we reviewed the terminated performance audit DFAS IR Project No. 16INPA012. We also reviewed the internal quality control reviews performed by DFAS IR. We visited the DFAS IR offices located in Cleveland, Ohio; Columbus, Ohio; and Indianapolis, Indiana.

Table 1. Selected DFAS IR Audits Completed Between July 1, 2016, and June 30, 2017

Field Office	Project No.	Report Title	Report Date	Audit Type
Cleveland, OH	16CLPA017	Military Adoption Reimbursements	6/6/2017	Performance
Columbus, OH	16COAA011	Independent Auditor's Report On Applying Agreed-Upon Procedures - DFAS Cleveland (CL) Accounts Receivable Intra-Governmental Payment and Collections (IPAC) Transactions	9/26/2016	Attestation
Columbus, OH	16COAA019	Independent Auditor's Report On Applying Agreed-Upon Procedures: Air Force General Fund	4/26/2017	Attestation
Columbus, OH	16COPA018	DFAS Rome (DFAS-RO) Accounts Receivable	4/14/2017	Performance
Columbus, OH	17COPA002	DFAS-Limestone USTRANSCOM A/R Audit	6/1/2017	Performance
Indianapolis, IN	16INAA001	Independent Auditor's Report On Applying Agreed-Upon Procedures - Account Management & Provisioning System (AMPS) And Contract Pay Systems	7/28/2016	Attestation
Indianapolis, IN	16INAA013	Independent Auditor's Report On Applying Agreed-Upon Procedures - Access Controls Over DFAS Indianapolis (DFAS-IN) Controlled Space	2/17/2017	Attestation
Indianapolis, IN	16INPA016	Entity Level Information Technology General Controls	6/5/2017	Performance

Source: DFAS IR

Enclosure 2

Defense Finance and Accounting Service Internal Review Director's Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
4800 MARK CENTER DRIVE
ALEXANDRIA, VA 22350-3000

DFAS-HI

February 5, 2018

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL POLICY AND OVERSIGHT,
U.S. DEPARTMENT OF DEFENSE

SUBJECT: Draft Report, "External Peer Review of the Defense Finance and Accounting Service Internal Review Organization" (Project No. D2017-DAPOCM-0173.000)

The Defense Finance and Accounting Service (DFAS), Internal Review concurs with the findings and recommendations in your draft report. I informed all Internal Review staff of the findings and recommendations in the draft report and have specifically reiterated/stated:

1. They ensure summary workpapers and supporting workpapers present evidence and results of analysis that are consistent with reported findings and conclusions.
2. The Internal Review statistician (specialist) independence statement will be included on all projects when established.
3. They review and comply with Internal Review Audit Manual 1.14.1 related to mandatory use of current Internal Review TeamMate templates and checklists and ensure any deviations from these requirements are approved by an IR Deputy Director along with the rationale and are documented in the working papers.
4. They review and comply with Internal Review Audit Manual 6.06.3 related to properly documenting changes during the course of an agreed upon procedures engagement. In addition, I stated that audit teams should report all findings regardless of materiality unless the definition of materiality is agreed to by the specified parties and included in the engagement memorandum or agreed to and documented as an agreed upon change in writing by the specified parties.
5. They ensure the reason for supervisory approvals of working papers post report issuance is documented in the project log.

My point of contact is [REDACTED] who can be reached at [REDACTED] or [REDACTED]

DAVIS.RICHA
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Richard D. Davis
Director, Internal Review

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

March 6, 2018

**MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
PRINCIPAL DEPUTY DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INTERNAL REVIEW**

**SUBJECT: External Peer Review Report of the Defense Finance and Accounting Service
Internal Review Organization Letter of Comment (Report No. DODIG-2018-082)**

We reviewed the system of quality control for Defense Finance and Accounting Service (DFAS) Internal Review (IR) in effect for June 30, 2017, and have issued our report on March 6, 2018, in which DFAS IR received a rating of pass. The report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The following findings were not considered to be of sufficient significance to affect the opinion expressed in the report. The Enclosure identifies the findings by DFAS IR project number for the eight completed audits and the one terminated audit.

Fieldwork Standards – Documentation

Finding 1. Auditors Did Not Revise Summary Working Papers to Adequately Document Reported Results

DFAS IR auditors did not revise their summary working papers to adequately document the results reported in two of the eight completed audits we selected for testing. The American Institute of Certified Public Accountants (AICPA) *Codification of Statements on Standards for Attestation Engagements* (AT) 101.103 stated that attest documentation should be sufficient to enable members of the engagement team who have supervision and review responsibilities to understand the nature, timing, extent, and results of attestation procedures performed, and the information obtained.¹ In DFAS IR Project No. 16INAA013, an attestation engagement, we noted one instance in which the findings documented in the summary working paper did not match the supporting working paper. The purpose of the agreed-upon procedures engagement was to perform procedures to assess access controls in controlled areas.² For one procedure, the auditors noted the number of designated representatives who were authorized to submit names to grant access to controlled areas. We noted that the summary working paper indicated 28 instances in which the designated representative was incorrect. However, when we reviewed the supporting documentation, we noted there were 27 instances in which the designated representative was incorrect. In addition, we noted the findings in the audit report properly matched the supporting working papers and not the summary working papers.

¹ AICPA Codification of Statements on Standards for Attestation Engagements [Clarified] (AT-C) replaced AT standards. AT standards apply to attestation reports issued before May 1, 2017. AT-C standards apply to attestation reports issued on or after May 1, 2017. AT-C has similar documentation requirements as AT. However, neither AT nor AT-C standards apply in performance audits.

² According to AT 201.03, an agreed-upon procedures engagement is an attestation engagement in which an auditor is engaged to issue a report based on specific agreed-upon procedures applied to the subject matter.

Government Auditing Standards (GAS) 6.79 states that in performance audits,

[a]uditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

In DFAS IR Project No. 16INPA016, a performance audit, we noted two instances in which the documented findings in the summary working paper did not match the supporting working paper. The purpose of the audit was to determine whether the controls were designed and operating effectively. The summary working paper noted 96 instances of effectively designed controls and 82 instances of effectively operating controls. However, when we reviewed the supporting documentation, we noted there were 97 instances of effectively designed controls and 81 instances of effectively operating controls. In addition, we noted that the findings in the audit report properly matched the supporting working papers and not the summary working papers.

For both projects, the results in the report were correct and supported by evidence in the supporting working papers. However, the auditors had not updated summary working paper to reflect the information in the supporting working papers. In addition, the DFAS IR independent reference reviewer did not identify the inconsistency because the report was referenced to the supporting working paper not the summary working paper. As a result of this documentation issue, the summary working papers did not adequately document the reported results of the audit procedures performed.

Recommendations, Management Comments, Our Response

Recommendation 1.1

We recommend that the Defense Finance and Accounting Service Internal Review Director remind auditors to prepare summary working papers based on the supporting working papers that are consistent with the conclusions and findings in the report.

Recommendation 1.2

We recommend that the Defense Finance and Accounting Service Internal Review Director remind supervisory auditors to ensure that all working papers reflect reported findings.

DFAS IR Director Comments

The Defense Finance and Accounting Service Internal Review Director agreed, stating that he reminded all Internal Review staff that they need to ensure that evidence and results presented in summary and supporting working papers are consistent with reported findings and conclusions.

Our Response

The February 5, 2018, comments from the Defense Finance and Accounting Service Internal Review Director addressed all specifics of the recommendations. To verify corrective actions have already been taken, we reviewed an e-mail dated February 5, 2018, that the Director sent to the Internal Review staff regarding the need to ensure that evidence and results presented in summary and supporting working papers are consistent with reported findings and conclusions. Therefore, the recommendation is closed, and no further comments are required.

General Standards – Independence

Finding 2. Auditors Did Not Assess Independence of Internal Specialist

DFAS IR auditors did not assess the independence of the internal specialist used in one of the eight completed audits we selected for testing. GAS 3.59a requires auditors to document threats to independence and the safeguards applied. Additionally, when auditors use the work of a specialist, GAS 6.42 requires the auditors to assess the independence of specialists. DFAS Internal Review Audit Manual (IRAM) 1.04.3 requires all members of the audit team, including deputy-level personnel and internal specialists, to complete an individual independence assessment, using a standard independence statement form for each engagement. The independence statement identifies threats to independence and the safeguards applied to prevent an impairment of the individual's independence. During our review of DFAS IR Project No. 16COPA018, we noted that the auditors did not comply with GAS 6.42 and DFAS IRAM 1.04.3. The auditors used the work of an internal specialist to develop parameters for a statistical sample. The auditors documented that the internal specialist typically completes an independence statement for each audit that requires his assistance. After completion, the independence statement is reviewed by the audit manager.

Proposed Corrective Action

To mitigate the risk of similar findings in the future, the auditors proposed creating a standard e-mail to request assistance from a specialist. The e-mail will include a statement requesting the specialist to complete the independence

statement included in the project. In addition, DFAS IR auditors proposed including an independence statement for a specialist when the project is established and deleting the working paper if a specialist is not consulted. DFAS IR auditors' proposed corrective action adequately addresses the cause of the finding.

Recommendations, Management Comments, Our Response

Recommendation 2

We recommend that the Defense Finance and Accounting Service Internal Review Director implement the proposed corrective action to request that all specialists complete an independence statement when their services are requested.

DFAS IR Director Comments

The Defense Finance and Accounting Service Internal Review Director agreed, stating that he communicated to all Internal Review staff that an independence statement for the Internal Review specialist will be included in the working papers for all projects when they are established.

Our Response

Although comments from the Defense Finance and Accounting Service Internal Review Director did not address all the specifics of the recommendation, we subsequently received additional information verifying that the Director communicated with the Internal Review staff regarding the recommendation. Specifically, we reviewed an e-mail dated February 8, 2018, that the Director sent to the Internal Review staff that instructed all specialists complete an independence statement when their services are requested. The actions taken by the Director meet the intent of the recommendation. Therefore, the recommendation is closed, and no further comments are required.

DFAS IR Policies and Procedures

Finding 3. Auditors Did Not Follow Policies and Procedures Regarding Use of Memorandum Templates

In the terminated audit selected for testing, we noted that the memorandum issued to disposition the project was not prepared in accordance with DFAS IR policies and procedures. DFAS IRAM 1.14.1 requires the use of templates when creating memorandums to ensure consistency. For DFAS IR Project No. 16INPA012, the client terminated the project before fieldwork completion, so the auditors prepared a memorandum to document project termination.

We compared the termination memorandum for Project No. 16INPA012 to the template memorandum for terminated audits and found that the termination memorandum did not include all the required information. Additionally, the rationale for the omission of the required information was not documented. We noted that the termination memorandum for the audit did not include the audit methodology, work performed, and audit results as required by the template memorandum. DFAS IR auditors included the audit methodology in a draft of the memorandum. However, DFAS IR management removed this required information while reviewing the memorandum. DFAS IRAM 1.14.1 permits DFAS management to make changes to required template memorandum information when a rationale for the change was documented. We noted that DFAS management did not document the rationale for the change. The lack of a documented rationale was an oversight.

Recommendations, Management Comments, Our Response

Recommendation 3

We recommend that the Defense Finance and Accounting Service Internal Review Director ensure that reviewing officials properly document their rationale for deviating from the memorandum template.

DFAS IR Director Comments

The Defense Finance and Accounting Service Internal Review Director agreed, stating that he communicated to all Internal Review staff that they need to review the Defense Finance and Accounting Service Internal Review Audit Manual 1.14.1 and ensure that the Internal Review Deputy Director has approved any deviations from the template and checklist requirements. He also communicated to them the need to document in the working papers the approval and rationale for any deviations from the template and checklist requirements.

Our Response

The February 5, 2018, comments from the Defense Finance and Accounting Service Internal Review Director addressed all the specifics of the recommendation. To verify corrective actions have already been taken, we reviewed an e-mail dated February 5, 2018, that the Director sent to the Internal Review staff instructing them to use templates and checklists in accordance with Defense Finance and Accounting Service Internal Review Audit Manual 1.14.1. In addition, the Director reminded the Internal Review staff that any deviations from the use of the

mandatory templates must be approved by the Internal Review Deputy Director, and must include documented rationale for the deviation. Therefore, the recommendation is closed, and no further comments are required.

Finding 4. Auditors Did Not Follow Policies and Procedures Regarding Confirming Changes to Agreed-Upon Procedures

In one of the eight completed audits selected for testing, we noted that the auditors did not follow the DFAS IR policies and procedures regarding engagement memorandums in agreed-upon procedures engagements. For these engagements, DFAS IRAM 6.06.3 requires an updated engagement memorandum when the auditors deviate from the original agreed-upon procedures to establish an agreement with regards to the change in the procedures performed. This updated engagement memorandum must be signed by the affected parties prior to deviating from the agreed-upon procedures. In DFAS IR Project No. 16COAA011, an agreed-upon procedures engagement, the auditors did not issue an updated engagement memorandum to account for a change in the procedures performed.

The engagement memorandum for Project No. 16COAA011 contained an agreed-upon procedure requiring all statistical sampling results to be projected to the universe. During the performance of the agreed-upon procedures, the auditors noted exceptions in two of the five procedures. The auditors discussed the results of testing with the requester. Based on the results, the requester determined that the auditors did not need to project the results to the universe. The auditors documented the meeting in the working papers. However, the auditors did not prepare a revised engagement memorandum agreeing to the changes in the agreed-upon procedures. The auditors failed to prepare a revised engagement memorandum because the change in procedures was not considered significant. In addition, the auditors were close to completing the draft report. Without the revised engagement memorandum, the auditors did not have written confirmation that the requester agreed to the changes in the procedures.

Proposed Corrective Action

DFAS IR stated that in the future, they will have the requester design procedures that include language that “projections will be provided if deemed appropriate based on the results.” The proposed corrective action does not fully address the cause of the finding. The auditors need to ensure that all changes in procedures are documented in writing with a revised engagement memorandum in order to comply with DFAS IRAM 6.06.3. Additionally, DFAS IR needs to ensure that the change in its internal procedure does not result in a noncompliance with attestation standards. The proposed corrective action does not address who will determine the appropriate situation in which projections will be provided.

AICPA Codification of Statements on Standards for Attestation Engagements

[Clarified] (AT-C) 215.10e requires auditors to establish an understanding with the client regarding the services to be performed, including agreed-upon materiality limits. In addition, AT-C 215.25 states that the auditors should report all findings regardless of materiality unless the definition of materiality is agreed to by the specified parties. The report should describe any agreed-upon materiality limits. AT-C 215.26 states auditors should avoid using vague or ambiguous language in report findings. Therefore, if the client's request includes language that projections should be provided if deemed appropriate, the client will also need to quantify what is appropriate.

Recommendations, Management Comments, Our Response

Recommendation 4.1

We recommend that the Defense Finance and Accounting Service Internal Review Director remind auditors to comply with Defense Finance and Accounting Service Internal Review Audit Manual 6.06.3 by confirming in writing any changes to agreed-upon procedures.

Recommendation 4.2

We recommend that the Defense Finance and Accounting Service Internal Review Director ensure agreed-upon procedures requests regarding the projection of results include specific materiality limits and adheres to attestation standards noted in *Government Auditing Standards and American Institute of Certified Public Accountants Codification of Statements on Standards for Attestation Engagements* [Clarified].

DFAS IR Director Comments

The Defense Finance and Accounting Service Internal Review Director agreed, stating that he reminded all Internal Review staff to review the Defense Finance and Accounting Service Internal Review Audit Manual 6.06.3 to ensure changes during the agreed-upon procedures engagement are properly documented. Additionally, all findings should be reported regardless of materiality unless the materiality limits are defined and agreed to and documented in writing by the specified parties.

Our Response

The February 5, 2018, comments from the Defense Finance and Accounting Service Internal Review Director addressed the specifics of the recommendation. To verify corrective actions have already been taken, we reviewed an e-mail dated

February 5, 2018, that the Director sent to the Internal Review staff regarding the need to ensure that changes to agreed-upon procedures are properly documented and findings are reported regardless of materiality, unless materiality limits have been agreed upon. Therefore, the recommendation is closed, and no further comments are required.

Finding 5. Audit Manager Did Not Adequately Document Review Prior to Issuance of Report

In one of the eight completed audits selected for testing, the audit manager signed working papers after issuing the report. GAS 6.83c requires documentation of supervisory review of evidence that supports the findings, conclusions, and recommendations contained in the audit report before report issuance. In relation to this standard, DFAS IRAM 1.43 states that the documentation added to the project file after the report has been issued should not contain evidence affecting the findings, conclusions, and recommendations. DFAS IRAM further requires the audit team to identify the audit documentation that was either added or edited after the final report is issued and the reasons for the changes.

In DFAS IR Project No. 17COPA002, the audit manager signed two working papers after the June 1, 2017, issuance of the audit report. On June 7, 2017, the audit manager signed the updated summary working paper and a support document. At the conclusion of fieldwork, on April 24, 2017, the audit manager signed the original summary working paper, documenting a minor deficiency with regards to a missing name of a process in the standard operating procedures. The auditors determined that this was not significant enough to warrant inclusion in the report and communicated the issue verbally. As a result of the verbal communication, the client included the name of the process in the standard operating procedures and provided the updated procedure documentation to the auditors on April 27, 2017. On this same day, the auditor added the supporting documentation to the project file and updated the summary working paper for the receipt of the updated procedure. The updated summary working paper and additional supporting documentation was overlooked until a closeout review was performed on June 7, 2017. At this time, both documents were signed by the audit manager. The auditors stated that not signing the updated summary working paper and the supporting document prior to issuing the report was an oversight.

By signing working papers after the report is issued, there is an appearance that the audit manager had not reviewed and approved all evidence used to support the conclusions in the report. Because the update to the summary working paper and additional supporting documentation was not part of the evidence used to support the reported conclusion, our finding did not result in a noncompliance

with GAS 6.83c. We noted that DFAS IRAM 1.43 does not specifically require an explanation for the audit manager's approvals after the report has been issued. However, if the audit manager had documented his or her justification for signing the working papers after the report had been issued, the appearance of a GAS 6.83c noncompliance may have been avoided. A modification to the policies and procedures would provide an internal control to prevent a GAS 6.83c noncompliance. By requiring explanations for all working paper modifications made post report issuance, including the audit manager's approvals, DFAS IR can help to ensure all evidence to support reported findings has been reviewed and approved prior to report issuance.

Recommendations, Management Comments, Our Response

Recommendation 5

We recommend that the Defense Finance and Accounting Service Internal Review Director modify Defense Finance and Accounting Service Internal Review Audit Manual 1.43 to require that supervisors document their justification in the project for approving working papers after a report has been issued.

DFAS IR Director Comments

The Defense Finance and Accounting Service Internal Review Director agreed, stating that he communicated to all Internal Review staff that they need to ensure that they document in the project log the reason for supervisors approving working papers after the report issuance.

Our Response

Although the comments from the Defense Finance and Accounting Service Internal Review Director did not address the specifics of the recommendation, we subsequently received additional information evidencing the Director's intent to update the audit manual to address the recommendation. Specifically, we reviewed an e-mail dated February 5, 2018, that the Director sent to the Internal Review staff regarding the importance of documenting the rationale for supervisors approving working papers after report issuance. The Defense Finance and Accounting Service Internal Review, Audit Liaison and Enterprise Risk Team Audit Manager indicated that this e-mail was considered an interim policy change and that the audit manual will be updated in June of 2018. Therefore, the recommendation is resolved but remains open. We will close this recommendation once we verify that the audit manual has been updated.

[REDACTED]
[REDACTED]
[REDACTED] We appreciate the cooperation and assistance received during the external peer review.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosure:

As stated

Enclosure

Findings by DFAS IR Project Number

Table 2. Findings by DFAS IR Project Number for the Eight Completed Audits and the One Terminated Audit

Project No.	Documentation ¹	Independence ²	Templates ³	Agreed-Upon Procedures ⁴	Manager Review ⁵
16CLPA017					
16COAA011				X	
16COAA019					
16COPA018		X			
17COPA002					X
16INAA001					
16INAA013	X				
16INPA012 ⁶			X		
16INPA016	X				

¹ Finding 1 – Auditors Did Not Revise Summary Working Papers to Adequately Document Reported Results.

² Finding 2 – Auditors Did Not Assess Independence of Internal Specialist.

³ Finding 3 – Auditors Did Not Follow Policies and Procedures Regarding Use of Memorandum Templates.

⁴ Finding 4 – Auditors Did Not Follow Policies and Procedures Regarding Confirming Changes to Agreed-Upon Procedures.

⁵ Finding 5 – Audit Manager Did Not Adequately Document Review Prior to Issuance of Report.

⁶ Project No. 16INPA012 was a terminated project selected for testing for compliance with GAS and internal policies and procedures.

Source: The DoD OIG

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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

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