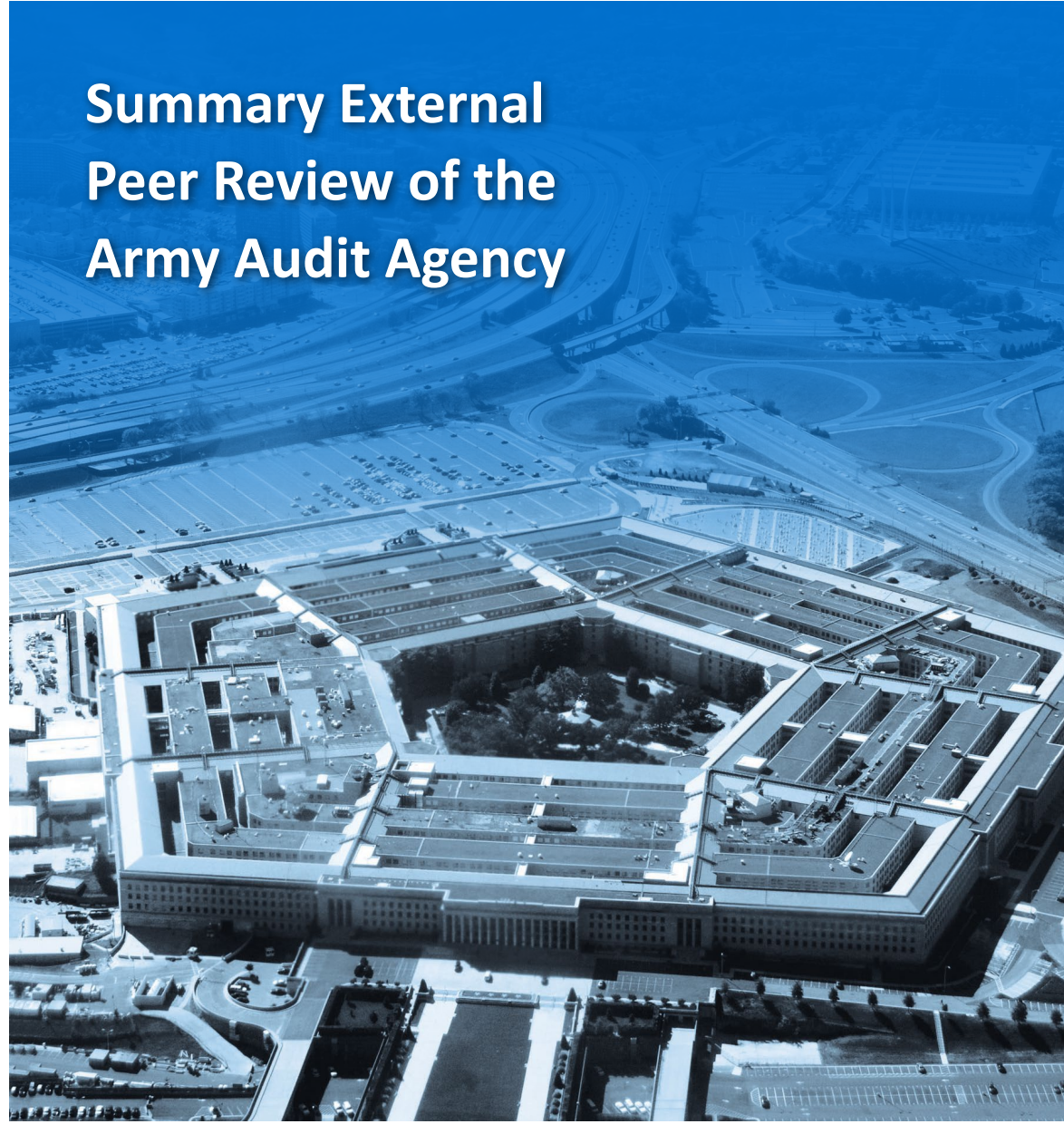




INSPECTOR GENERAL

U.S. Department of Defense

JULY 26, 2021



Summary External Peer Review of the Army Audit Agency

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

July 26, 2021

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Summary External Peer Review of the Army Audit Agency
(Report No. DODIG-2021-109)

Attached is the Summary System Review Report on the External Peer Review of the Army Audit Agency. We are providing this report for your information and use. We provided a discussion draft of this report to the Auditor General of the Department of the Army, who concurred with the discussion draft findings. Therefore, we are publishing this report as final based on the Auditor General's response to the discussion draft.

We conducted the external peer review in accordance with Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General. The enclosure of the report identifies the scope and methodology.

If you have any questions or would like to meet to discuss the external peer review, please contact [REDACTED]. We appreciate the cooperation and assistance we received during the review.

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

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight





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

July 26, 2021

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Summary System Review Report on the External Peer Review
of the Army Audit Agency (Report No. DODIG-2021-109)

We compiled the results of the external peer review (peer review) of the Army Audit Agency (AAA) non-Special Access Program (SAP) audits that the Naval Audit Service performed, and the peer review of AAA SAP audits that the DoD Office of Inspector General (OIG) performed, to make a summary assessment on the system of quality control of the AAA for the 3-year period ended December 31, 2019. A system of quality control encompasses the AAA organizational structure, the policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in the Government Auditing Standards.

In our opinion, the system of quality control for the AAA in effect for the 3-year period ended December 31, 2019, has been suitably designed and complied with to provide the AAA with reasonable assurance of performing and reporting in conformity in all material respects with applicable Government Auditing Standards and legal and regulatory requirements.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. In Naval Audit Service Report No. P2021-0001, the Naval Audit Service issued a rating of *pass* on the AAA system of quality control for non-SAP audits.¹ In Report No. DODIG-2021-078, the DoD OIG issued a rating of *pass* on the AAA system of quality control for SAP audits.² Therefore, the AAA has received a summary rating of *pass*.

Letter of Comment

The Naval Audit Service issued a Letter of Comment to the AAA, dated December 16, 2020, which sets forth findings for non-SAP audits that we did not consider to be of sufficient significance to affect our opinion expressed in this summary System Review Report of the AAA. The DoD OIG did not issue a Letter of Comment on its review of SAP audits for the 3-year period ended December 31, 2019.

¹ Report P2021-0001, "Opinion Letter on the Fiscal Year 2020 External Quality Control Peer Review of the United States Army Audit Agency," December 16, 2020.

² DODIG-2021-078, "External Peer Review of the Army Audit Agency Special Access Program Audits," April 27, 2021.

Basis of Opinion

The Naval Audit Service and the DoD OIG conducted both peer reviews in accordance with the Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General," September 2014.

The peer reviews conducted by the Naval Audit Service and the DoD OIG included interviewing AAA personnel and obtaining an understanding of the nature of the design of the AAA system of quality control sufficient to assess the risks implicit in its audit functions. Based on the interviews and the understanding obtained, the Naval Audit Service and the DoD OIG selected audits, attestation engagements, and working papers to test for conformity with the Government Auditing Standards and compliance with the AAA system of quality control. The Naval Audit Service nonstatistically selected:

- 5 of 42 non-SAP performance audits,
- 2 of 7 non-SAP attestation engagements,
- 2 of 9 AAA quality assurance reviews,
- 1 of 4 AAA nonaudit service engagements, and
- 1 of 30 terminated audits.

The selected performance audits and attestation engagements were completed between July 1, 2019, and December 31, 2019. The selected quality assurance reviews, nonaudit engagements, and terminated audits occurred between January 1, 2017, and December 31, 2019. Collectively, the selected activities represent a reasonable cross-section of AAA non-SAP activities that occurred during the 3-year period ended December 31, 2019. The December 2011 revision to the Government Auditing Standards was in effect while the AAA conducted the selected activities.

In our oversight of the Naval Audit Service peer review, we attended planning meetings and reviewed the Memorandum of Understanding that the Naval Audit Service and the AAA signed. We also reviewed working papers, point papers, and CIGIE Guide checklists prepared by the Naval Audit Service peer review team to enable us to rely on the peer review conclusions and findings that the Naval Audit Service reported.³

During the DoD OIG peer review of AAA SAP audits, the DoD OIG selected two of seven SAP performance audits that the AAA completed from January 1, 2017, through December 31, 2019.⁴

³ A point paper is a summary of the results for each audit and attestation engagement selected for review.

⁴ The AAA SAP auditors did not conduct any attestations during the 3-year period ended December 31, 2019. The AAA SAP auditors terminated one audit during the 3-year period. The DoD OIG did not select the terminated audit for review based on the results of the prior AAA peer review.

The DoD OIG tested the two performance audits for conformity with the Government Auditing Standards. The two performance audits represent a reasonable cross-section of the universe of seven SAP performance audits that the AAA conducted during the 3-year period ended December 31, 2019. The AAA conducted the two selected SAP performance audits while the December 2011 revision to the Government Auditing Standards was in effect.

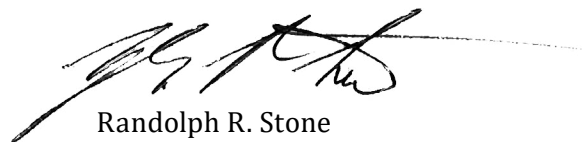
In performing the peer reviews, the Naval Audit Service and the DoD OIG obtained an understanding of the system of quality control for the AAA. In addition, the Naval Audit Service and the DoD OIG tested for compliance with the AAA quality control policies and procedures to the extent that the Naval Audit Service and the DoD OIG considered appropriate. These tests covered the application of the AAA policies and procedures on the selected audits. The peer reviews conducted by the Naval Audit Service and the DoD OIG were based on selected tests; therefore, they did not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. The enclosure includes details of the scope and methodology of the Naval Audit Service and the DoD OIG peer reviews.

The Naval Audit Service and the DoD OIG peer review teams met with AAA management to discuss the results of the peer reviews. We also advised the AAA of the summary opinion expressed in this report. We believe the procedures that the Naval Audit Service and the DoD OIG performed provide a reasonable basis for our summary opinion.

Responsibilities and Limitation

The AAA is responsible for establishing and maintaining a system of quality control designed to provide the AAA with reasonable assurance that the organization and its personnel comply in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements. Our responsibility is to express a summary opinion on the design of the system of quality control and the AAA's compliance based on the peer reviews that the Naval Audit Service and the DoD OIG conducted.

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.



Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

Enclosure:
As stated

Enclosure

Scope and Methodology

The Naval Audit Service conducted its peer review of the AAA non-SAP audits from January 2020 through October 2020. The DoD OIG conducted its peer review of the AAA SAP audits from September 2020 through March 2021. The peer reviews covered the 3-year period from January 1, 2017, through December 31, 2019.

The peer reviews conducted by the Naval Audit Service and the DoD OIG were performed in accordance with the Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) “Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General.” These standards required that the Naval Audit Service and the DoD OIG obtain an understanding of the audit organization’s system of quality control and conclude whether:

- the system is designed appropriately to ensure compliance with the Government Auditing Standards, and
- the audit organization is complying with the Government Auditing Standards and internal policies and procedures.

We Performed Oversight of the Naval Audit Service Peer Review of the Army Audit Agency

In accordance with the Government Auditing Standards and the CIGIE Guide, we performed oversight procedures to provide a basis for reliance on the results of the peer review conducted by the Naval Audit Service and to ensure that the CIGIE guidelines were consistently applied. We attended planning meetings and reviewed the Memorandum of Understanding that the Naval Audit Service and the AAA officials signed. We also reviewed the working papers, point papers, and the CIGIE Guide checklists prepared by the Naval Audit Service peer review team to enable us to rely on the conclusions and findings that the Naval Audit Service reported.

In addition, we reviewed the two reports issued by the Naval Audit Service, Naval Audit Service Report P2021-0001, “Opinion Letter on the Fiscal Year 2020 External Quality Control Peer Review of the United States Peer Review of the United States Army Audit Agency,” December 16, 2020, and Report P2021-0002, “Letter of Comments on the External Quality Control Peer Review on the United States Army Audit Agency,” December 16, 2020. Naval Audit Service Report P2021-0001 reflects a pass rating on the AAA system of quality control over non-SAP audits. Naval Audit Service Report P2021-0002 identified nine findings in the areas of quality assurance, supervision, planning, audit documentation, and reporting. We determined that the nine findings were not significant enough to affect the summary opinion on the AAA system of quality control provided in this report.

The Naval Audit Service and the DoD OIG Used the September 2014 CIGIE Guide to Conduct the Peer Reviews

As detailed below, the Naval Audit Service and the DoD OIG used the appendixes and procedures in the September 2014 CIGIE Guide to conduct the peer reviews of the AAA.

Policies and Procedures (CIGIE Guide Appendix A)

The Naval Audit Service reviewed the AAA audit policies and procedures to determine whether the policies and procedures complied with the Government Auditing Standards, including the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements, which is incorporated in the Government Auditing Standards by reference. The Naval Audit Service requested that the AAA complete Column 1 of CIGIE Guide Appendix A, "Policies and Procedures," and provide a copy of relevant policies and procedures. In Column 2 of CIGIE Guide Appendix A, the Naval Audit Service recorded its conclusions and comments on the AAA policies and procedures for compliance with the Government Auditing Standards. The Naval Audit Service determined that the AAA policies and procedures complied with the Government Auditing Standards. The DoD OIG reviewed the Naval Audit Service conclusions reflected in Column 2 of Appendix A and agreed with those conclusions.

The AAA audit policies and procedures apply to both AAA non-SAP and SAP audits. Therefore, the DoD OIG relied on the Naval Audit Service review of the AAA audit policies and procedures to avoid duplication of efforts.

Checklist for Review of Adherence to General Standards (CIGIE Guide Appendix B)

As detailed below, the Naval Audit Service and the DoD OIG used Appendix B of the CIGIE Guide to test the AAA's compliance with the Government Auditing Standards' general standards, consisting of independence, competence, professional judgment, and quality control and assurance.

The Naval Audit Service Review of Adherence to General Standards for the Non-Special Access Program Audits

The Naval Audit Service reviewed the continuing professional education documentation for 65 of 457 AAA audit staff members to determine whether the audit staff members obtained the required number of continuing professional education hours and to determine whether the audit staff members were competent. The Naval Audit Service also reviewed documentation of independence to determine whether the AAA met the Government Auditing Standards' requirements for independence documentation. In addition, the Naval Audit Service reviewed two of nine internal quality assurance reviews of non-SAP audits that the AAA completed from January 1, 2017, through December 31, 2019, to determine whether the AAA annually analyzed and summarized the results of its monitoring process; communicated any deficiencies noted

during the monitoring process to appropriate personnel; and made recommendations for appropriate remedial action. Table 1 identifies the AAA quality assurance reviews that the Naval Audit Service reviewed.

Table 1. AAA Quality Assurance Reports Reviewed by the Naval Audit Service

Report Number	Report Date	Report Title
Q-2018-0001-ZBX	November 27, 2017	Quality Assurance Post- Audit Review of the Audit of Administration of the Rivanna Station Base Operations Contract, National Ground Intelligence Center (Audit Report A-2014-0028-ALC)
Q-2020-0001-ZBX	November 11, 2019	Quality Assurance Functional Review of Audit Sampling

Source: The Naval Audit Service.

The Naval Audit Service concluded that the AAA complied with the general standards for non-SAP audits.

The DoD OIG Review of Adherence to General Standards for Special Access Program Audits

The DoD OIG reviewed the continuing professional education documentation for all six SAP audit staff assigned to the two audits selected for review to determine whether they obtained the required number of continuing professional education hours and to determine whether the audit staff members were competent. The DoD OIG also reviewed documentation of independence to determine whether the AAA SAP audits met the Government Auditing Standards' requirements for independence documentation. The DoD OIG concluded that the AAA complied with the general standards applicable to the AAA SAP audits.

Checklist for Review of Attestation Engagements Performed by the Army Audit Agency (CIGIE Guide Appendix D)

From July 1, 2019, through December 31, 2019, the AAA conducted seven non-SAP attestation engagements. The Naval Audit Service nonstatistically selected two of the seven non-SAP attestation engagements to review. Using Appendix D of the CIGIE Guide, the Naval Audit Service reviewed the two non-SAP attestation engagements to determine the extent to which they complied with the Government Auditing Standards. The Naval Audit Service concluded that the two non-SAP attestation engagements complied with the Government Auditing Standards. Table 2 identifies the AAA non-SAP attestation engagements that the Naval Audit Service reviewed.

Table 2. AAA Non-SAP Attestation Engagements Reviewed by the Naval Audit Service

Report Number	Report Date	Report Title
A-2019-0087-BOZ	July 15, 2019	Independent Auditor’s Report on the Agreed-Upon Procedures Attestation of Suspected Larceny of Government Funds and Fraud—Redstone Arsenal
A2020-0013-BOZ	November 18, 2019	Independent Auditor’s Report on the Agreed-Upon Procedures Attestation of Contractor Invoicing at Fort Sill Dining Facilities

Source: The Naval Audit Service.

The DoD OIG did not review any AAA attestation engagements because the AAA did not complete any SAP attestation engagements from January 1, 2017, through December 31, 2019.

Checklist for Review of Performance Audits Performed by the Army Audit Agency (CIGIE Guide Appendix E)

Using Appendix E of the CIGIE Guide, the Naval Audit Service and the DoD OIG reviewed a reasonable cross-section of AAA performance audits. The AAA conducted the performance audits while the December 2011 revision to the Government Auditing Standards was in effect.

The Naval Audit Service Peer Review of Army Audit Agency Non-Special Access Program Performance Audits

From July 1, 2019, through December 31, 2019, the AAA completed 42 non-SAP performance audits. The Naval Audit Service nonstatistically selected five non-SAP performance audits to review. In selecting the nonstatistical sample, the Naval Audit Service chose non-SAP audits that would provide a reasonable cross-section of non-SAP performance audits completed by the AAA. For example, the Naval Audit Service chose audits that reflected a variety of subjects at different AAA offices. Table 3 identifies the non-SAP performance audit reports that the AAA reviewed.

Table 3. AAA Non-SAP Attestation Engagements Reviewed by the Naval Audit Service

Report Number	Report Date	Report Title
A-2019-0085-BOZ	July 17, 2019	Force Protection Korea
A-2019-0094-AXZ	August 20, 2019	European Deterrence Initiative- Requirements Sourcing for Army Prepositioned Stock
A-2019-0099-FIZ	August 27, 2019	Class VIII Medical Supply and Equipment Readiness – Army National Guard
A-2019-0107-AXZ	September 19, 2019	Funding and Accountability of Property Supporting Operation Observant Compass
A-2019-0110-AXZ	September 25, 2019	Army National Guard Depot Maintenance Requirements

Source: The Naval Audit Service.

The Naval Audit Service determined that the five AAA performance audits complied with the Government Auditing Standards. In addition to the five AAA performance audits, Naval Audit Service reviewed one of four AAA nonaudit services, Project No. A2020-BOZ-0536, “Nonaudit Service, Global Combat Support System-Army Data, Fort Hood,” December 19, 2019. The Naval Audit Service determined that the nonaudit service project complied with the Government Auditing Standards.

The DoD OIG Peer Review of Army Audit Agency Special Access Program Performance Audits

From January 1, 2017, through December 31, 2019, the AAA audit organization completed seven SAP performance audits. The DoD OIG nonstatistically selected two SAP performance audits to review. In selecting the nonstatistical sample, the DoD OIG chose SAP audits that would provide a reasonable cross-section of SAP performance audits completed by the AAA. For example, the DoD OIG chose audits the AAA recently completed and which varied in subject matter. The DoD OIG determined that the two SAP performance audits complied with the Government Auditing Standards.

Terminated Audit (CIGIE Risk Assessment Procedure)

From July 1, 2019, through December 31, 2019, the AAA terminated 30 non-SAP audits. The Naval Audit Service nonstatistically selected one terminated audit, Project No. A2018-ACL-0210, “Termination of the Audit of Bridge Contracts,” using a random number generator to make the selection.⁵

The Naval Audit Service elected to review only 1 of the 30 terminated audits because the last AAA peer review did not disclose any deficiencies associated with terminated audits. The Naval Audit Service reviewed the terminated audit to determine whether the AAA audit staff complied with the Government Auditing Standards by documenting the results of the audit to the date of termination and the reason AAA audit staff terminated the audit. The Naval Audit Service determined that the AAA audit staff complied with the Government Auditing Standards when they terminated the audit.

In addition, the Naval Audit Service conducted a limited review of all 30 terminated project memorandums to determine whether the memorandums complied with AAA policies and procedures. The Naval Audit Service determined that all 30 memorandums complied with AAA policies and procedures.

The AAA terminated one SAP audit from January 1, 2017, through December 31, 2019. The DoD OIG elected not to review the terminated audit based on the results of the last AAA peer review, which did not disclose any deficiencies associated with terminated audits.

⁵ A random number generator randomly selects a number or multiple numbers from a set range. In this case, the Naval Audit Service numbered the universe of terminated audits and randomly selected one using a random number generator to select the terminated audit for review.

Audit Staff Interviews (CIGIE Risk Assessment Procedure)

As detailed below, the Naval Audit Service and the DoD OIG conducted interviews of AAA audit staff members. The Naval Audit Service and the DoD OIG assessed the AAA audit staff members' understanding of, and compliance with, the AAA quality control policies and the Government Auditing Standards

The Naval Audit Service Conducted Interviews of Auditors Assigned to the Army Audit Agency Non-Special Access Program Audits

The Naval Audit Service interviewed 37 of 457 non-SAP AAA audit staff members employed as of December 3, 2019. The Naval Audit Service nonstatistically selected the 37 AAA audit staff members from the three AAA field offices that participated in conducting the performance audits, attestation engagements, and nonaudit services that the Naval Audit Service selected for its peer review.⁶ The 37 audit staff members included a cross-section of audit supervisors and auditors. The Naval Audit Service interviewed the 37 audit staff members to determine their understanding of, and compliance with, the AAA quality control policies and the Government Auditing Standards. The Naval Audit Service determined that the 37 AAA audit staff members adequately understood and complied with the AAA quality control policies and the Government Auditing Standards.

The DoD OIG Conducted Interviews of Auditors Assigned to the Army Audit Agency Special Access Program Audits

The DoD OIG conducted interviews of all six AAA audit staff members assigned to the two AAA SAP performance audits that the DoD OIG selected for review. The DoD OIG determined that the six AAA SAP audit staff members adequately understood and complied with the AAA quality control policies and the government auditing standards.

Use of Computer-Processed Data

The Naval Audit Service and the DoD OIG did not rely on computer-processed data to perform the peer reviews.

Prior Coverage

During the last 5 years, the DoD OIG issued three reports discussing peer reviews of the AAA and the Naval Audit Service issued two reports discussing the peer reviews of the AAA. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>. The Naval Audit Service reports are not available over the Internet.

⁶ Army Audit Agency has an Operations Center at Fort Belvoir, Virginia, and 17 audit field offices.

DoD OIG

Report No. DODIG-2021-078, “External Peer Review of the Army Audit Agency’s Special Access Program Audits,” April 27, 2021

The DoD OIG evaluated whether the AAA quality control system over SAP audits for the 3-year period ended December 31, 2019, was adequate. The DoD OIG issued a peer review rating of *pass* to the AAA for its SAP audits.

Report No. DODIG-2018-083, “System Review Report for the Army Audit Agency,” March 7, 2018

The DoD OIG provided oversight of the Air Force Audit Agency peer review of AAA non-SAP audits and issued a summary opinion on the quality control system of the AAA for the 3-year period ended December 31, 2016. The DoD OIG combined the results of the Air Force Audit Agency peer review of AAA non-SAP audits and the DoD OIG peer review results of AAA SAP audits to provide the summary opinion. The DoD OIG issued a summary peer review rating of *pass* to the AAA.

Report No. DODIG-2017-091, “External Peer Review Report of the Army Audit Special Access Program Audits,” June 9, 2017

The DoD OIG evaluated whether the AAA quality control system over SAP audits for the 3-year period ended December 31, 2016, was adequate. The DoD OIG issued a peer review rating of *pass* for its SAP audits.

Naval Audit Service

Report No. P2021-0001, “Opinion Letter on the Fiscal Year 2020 External Quality Control Peer Review of the United States Army Audit Agency,” December 16, 2020

The Naval Audit Service conducted an external peer review of the AAA non-SAP audits for the 3-year period ended December 31, 2019, to determine whether the quality control system for the AAA complied with applicable professional standards in all material respects. The AAA received an external peer review rating of *pass*.

Report No. P2021-0002, “Letter of Comments on the Fiscal Year 2020 External Quality Control Peer Review of the United States Army Audit Agency,” December 16, 2020

The Naval Audit Service conducted an external peer review of the AAA non-SAP audits for the 3-year period ended December 31, 2019, to determine whether the quality control system for the AAA complied with applicable professional standards in all material respects. The Naval Audit Service issued the AAA an external peer review rating of *pass* but identified findings and recommendations in its Letter of Comment that did not warrant inclusion in the Opinion Letter of its Peer Review Report.

Acronyms and Abbreviations

AAA Army Audit Agency

CIGIE Council of Inspectors General on Integrity and Efficiency

SAP Special Access Program



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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

Congressional Liaison

703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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