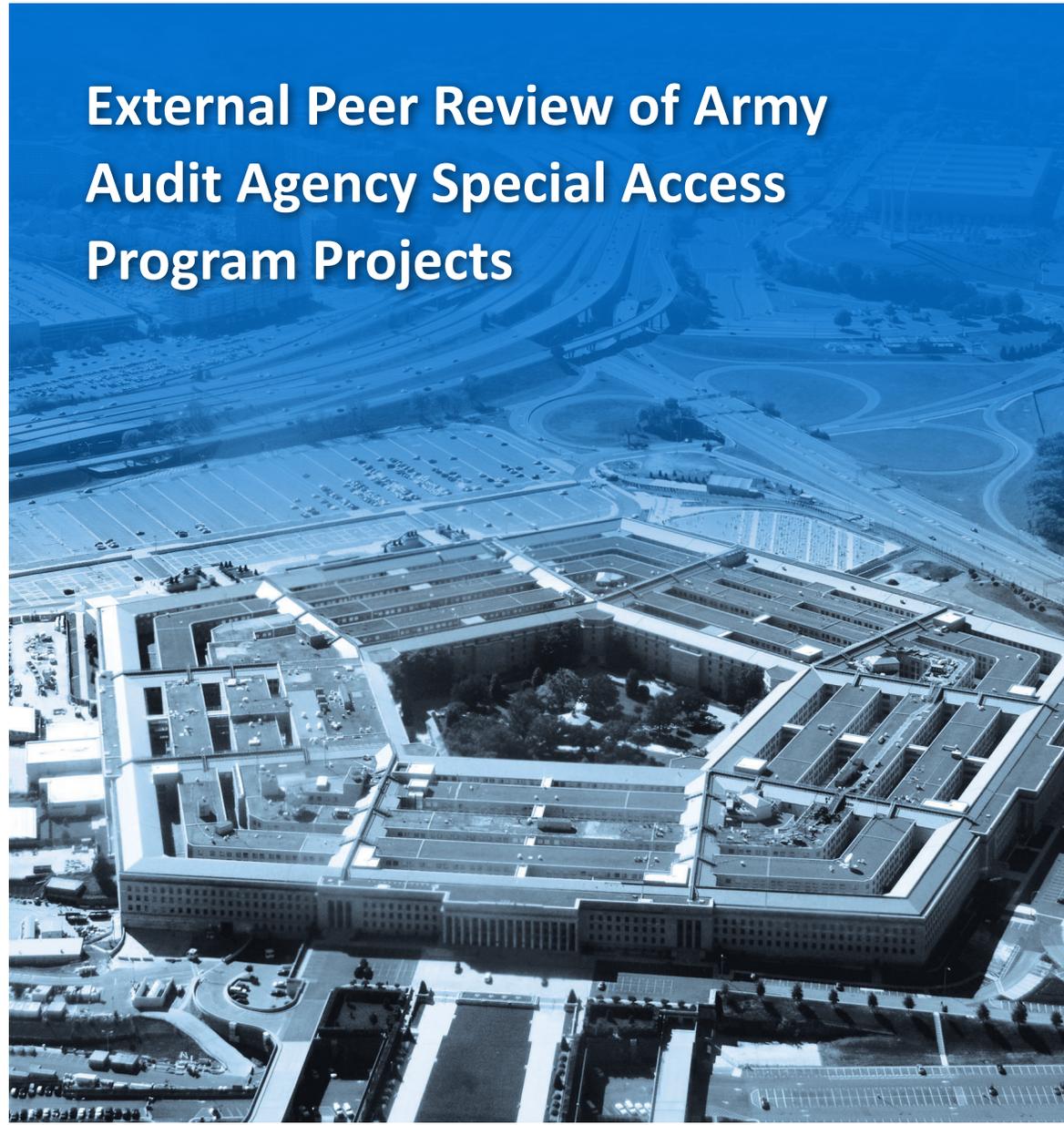


INSPECTOR GENERAL

U.S. Department of Defense

AUGUST 29, 2024



External Peer Review of Army Audit Agency Special Access Program Projects

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





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

August 29, 2024

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: External Peer Review of Army Audit Agency Special Access Program Projects
(Report No. DODIG-2024-127)

This final report provides the results of the DoD Office of Inspector General's external peer review of the Army Audit Agency Special Access Program projects. We are providing this final report for your information and use. The report does not contain recommendations. We provided a discussion draft of this report to the Auditor General of the Army, who acknowledged receipt of the discussion draft but provided no additional comments. Therefore, we are publishing this report in final form.

We appreciate the cooperation and assistance we received during the peer review. If you have any questions, please contact [REDACTED]

FOR THE INSPECTOR GENERAL:

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

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





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

August 29, 2024

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: System Review Report on the External Peer Review of Army Audit Agency Special Access Program Projects (Report No. DODIG-2024-127)

We reviewed the system of quality control for Army Audit Agency Special Access Program (SAP) projects in effect for the 3-year period that ended on December 31, 2022. A system of quality control encompasses the Army Audit Agency's structure, adopted policies, and established procedures to provide it with reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in Government Auditing Standards.

In our opinion, the system of quality control for Army Audit Agency SAP projects in effect for the 3-year period that ended on December 31, 2022, has been suitably designed and complied with to provide the agency with reasonable assurance of performing and reporting in conformity with Government Auditing Standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The Army Audit Agency has received an external peer review rating of *pass* for its SAP projects.

Letter of Comment

We issued a Letter of Comment on August 29, 2024, that presents a finding we did not consider to be significant enough to affect our opinion in this System Review Report.

Basis of Opinion

We conducted our 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."¹

Army Audit Agency auditors who perform SAP projects are assigned to the Army Audit Agency Intelligence and Special Programs Audits organization. We interviewed a sample of the organization's auditors and obtained an understanding of the nature of the Army Audit Agency and the design of its system of quality control. The understanding we obtained was sufficient to assess the risks implicit in Army Audit Agency audit functions for SAP projects.

¹ Council of the Inspectors General on Integrity and Efficiency, "Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General," March 2020.

Based on our assessment, we nonstatistically selected two projects to test for compliance with Government Auditing Standards and the Army Audit Agency's system of quality control. We selected one of five SAP performance audits that the Army Audit Agency completed from January 1, 2020, through December 31, 2022. We also selected the one SAP attestation engagement that the Army Audit Agency completed from January 1, 2020, through December 31, 2022. The two projects represent a reasonable cross-section of the universe of six SAP projects that the Army Audit Agency completed during the 3-year period that ended on December 31, 2022.

The Naval Audit Service performed a peer review of the system of quality control for Army Audit Agency non-SAP projects completed during the 3-year period that ended on December 31, 2022. As part of the Naval Audit Service's peer review of Army Audit Agency non-SAP projects, the Naval Audit Service reviewed Army Audit Agency quality control policies and procedures that are applicable to both SAP and non-SAP projects. We performed tests of the Naval Audit Service's review of the quality control policies and procedures and determined that we could rely on the Naval Audit Service's conclusions.

We also tested for compliance with Army Audit Agency quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the Army Audit Agency's policies and procedures on the two SAP projects we selected. We based our review on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

We believe that the procedures we performed provide a reasonable basis for our opinion. The Enclosure identifies our scope and methodology, including our basis for selecting the two SAP projects.

Responsibilities and Limitations

The Army Audit Agency is responsible for establishing and maintaining a system of quality control designed to provide reasonable assurance that the agency and its personnel comply in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control covering Army Audit Agency SAP projects and the Army Audit Agency's compliance based on our review.

Inherent limitations exist in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. The 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.

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read 'Randolph R. Stone', written over a light gray background.

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

Enclosure:
As stated

Enclosure

Scope and Methodology

We conducted this peer review from March 2023 through August 2024 in accordance with 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.” The standards and guide require that we obtain an understanding of the audit organization’s system of quality control and conclude whether the audit organization:

- appropriately designed the system to ensure compliance with Government Auditing Standards, and
- complied with Government Auditing Standards and internal policies and procedures.

We also conducted this peer review in accordance with the CIGIE “Quality Standards for Inspection and Evaluation,” published in December 2020. Those standards require that we adequately plan the peer review to ensure that objectives are met and that we perform the peer review to obtain sufficient and relevant evidence to support the findings, conclusions, and recommendations. We believe the evidence that we obtained was sufficient and relevant to lead a reasonable person to sustain the findings and conclusions.

This peer review covered the 3-year period from January 1, 2020, through December 31, 2022. We tested Special Access Program (SAP) projects for compliance with the Army Audit Agency’s system of quality control to the extent we considered appropriate. We selected a reasonable cross-section of SAP projects that the Army Audit Agency Intelligence and Special Programs Audits organization completed during the 3-year review period. As detailed in the following sections, we used the appendixes and procedures in the CIGIE Guide to conduct this peer review.

Policies and Procedures (CIGIE Guide Appendix A)

The Army Audit Agency uses the same audit policies and procedures for both SAP and non-SAP projects. The Naval Audit Service reviewed the Army Audit Agency’s policies and procedures to determine whether the policies and procedures complied with Government Auditing Standards. The Naval Audit Service requested that the Army Audit Agency complete Column 1 of CIGIE Guide Appendix A, “Policies and Procedures,” and provide a copy of its relevant policies and procedures. Using Column 2 of CIGIE Guide Appendix A, the Naval Audit Service recorded its conclusions on the policies and procedures of the Army Audit Agency for compliance with Government Auditing Standards. We performed tests of the Naval Audit Service’s review of Army Audit Agency policies and procedures to place reliance on the Naval Audit Service’s review conclusions. The Naval Audit Service and we found that the policies and procedures were adequate and complied with Government Auditing Standards.

Checklist for the Standards of Independence, Competence and Continuing Professional Education, and Quality Control and Peer Review (CIGIE Guide Appendix B)

Using CIGIE Guide Appendix B, we performed tests of Army Audit Agency SAP projects to determine the extent to which the auditors complied with the Government Auditing Standards' general standards. The general standards consist of independence, competence and continuing professional education, and quality control and peer review.

Independence

We reviewed the Army Audit Agency independence records for the auditors assigned to the two projects we reviewed. We concluded that the Army Audit Agency complied with the independence requirements in Government Auditing Standards.

Competence and Continuing Professional Education

We interviewed 4 of the 16 audit staff members who were assigned to the Army Audit Agency Intelligence and Special Programs Audits organization and were still employed by the Army Audit Agency as of November 13, 2023. In selecting the four audit staff members, we chose those who would provide a reasonable cross-section of supervisors and auditors assigned to the two projects. We interviewed the audit staff members to determine their understanding of, and compliance with, Government Auditing Standards and Army Audit Agency quality control policies and procedures. Based on the interview results, we found that the audit staff members are competent and have an adequate understanding of Government Auditing Standards and Army Audit Agency policies and procedures.

We also nonstatistically selected a sample of 6 of the 14 audit staff members assigned to the two sampled projects to determine whether the auditors obtained the continuing professional education (CPE) hours required by Government Auditing Standards. We reviewed the CPE documentation for the last completed 2-year CPE reporting period, which covered FY 2021 and FY 2022. We determined that the six auditors met the CPE requirements.

Quality Control and Peer Review

We reviewed the one SAP internal quality review that the Army Audit Agency completed during the 3-year review period to determine whether the agency:

- performed monitoring procedures of its SAP projects that enabled it to assess compliance with professional standards and quality control policies and procedures, and
- analyzed and summarized the results of its monitoring procedures with identification of any systemic or repetitive problems needing improvement and with recommendations for corrective action.

The Army Audit Agency complied with Government Auditing Standards for monitoring of quality procedures.

Additionally, we determined that the Army Audit Agency complied with Government Auditing Standards for peer reviews of its SAP projects by obtaining a peer review once every 3 years. See the Prior Coverage section in this Enclosure for additional information.

Checklist for Agreed-Upon Procedures Engagements Performed by the Office of Inspector General (CIGIE Guide Appendix D3)

From January 1, 2020, through December 31, 2022, the Army Audit Agency completed one SAP attestation engagement, which was an agreed-upon procedures (AUP) engagement. We reviewed the AUP engagement to assess the agency's compliance with Government Auditing Standards and American Institute of Certified Public Accountants (AICPA) standards using CIGIE Guide Appendix D3. We determined that the Army Audit Agency auditors did not obtain a written representation letter from the engaging party and did not include a reporting statement in the AUP report, as the AICPA standards require. However, these noncompliances did not rise to the level of a deficiency as defined in the CIGIE Guide. See the Finding in the Letter of Comment for additional details.

Checklist for Performance Audits (CIGIE Guide Appendix E)

From January 1, 2020, through December 31, 2022, the Army Audit Agency completed five SAP performance audits. We nonstatistically selected one performance audit for our review. We reviewed the performance audit for compliance with Government Auditing Standards using CIGIE Guide Appendix E. We determined that the Army Audit Agency complied with Government Auditing Standards in performing the performance audit.

Use of Computer-Processed Data

We did not use computer-processed data to perform this peer review.

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (OIG) and Naval Audit Service issued four reports discussing external peer reviews of the Army Audit Agency. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>. Naval Audit Service reports are not available over the Internet.

DoD OIG

Report No. DODIG-2021-109, “Summary External Peer Review of the Army Audit Agency,” July 26, 2021

The DoD OIG compiled the results of the Navy Audit Service peer review of Army Audit Agency non-SAP projects and the DoD OIG peer review of Army Audit Agency SAP projects to make a summary assessment on the Army Audit Agency’s system of quality control for the 3-year period that ended on December 31, 2019. The DoD OIG issued a summary peer review rating of *pass* for the Army Audit Agency.

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 Army Audit Agency’s system of quality control for SAP projects in effect for the 3-year period that ended on December 31, 2019, was suitably designed and whether the Army Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. The DoD OIG issued a peer review rating of *pass* for the Army Audit Agency’s SAP projects.

Naval Audit Service

Report No. P2024-0001, “Opinion Letter on the Fiscal Year 2023 External Quality Control Peer Review of the United States Army Audit Agency,” November 13, 2023

The Naval Audit Service evaluated whether the Army Audit Agency’s system of quality control in effect for the 3-year period that ended on December 31, 2022, was suitably designed and whether the Army Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. The Naval Audit Service issued a peer review rating of *pass* for the Army Audit Agency’s non-SAP projects.

The Naval Audit Service also issued Report No. P2024-0002, “Letter of Comment on the Fiscal Year 2023 External Quality Control Peer Review of the United States Army Audit Agency,” November 13, 2023. The Naval Audit Service identified six findings involving independence, continuing professional education, supervision, audit documentation, and quality control policies and procedures that the Naval Audit Service did not consider to be significant enough to affect the opinion expressed in its November 13, 2023 System Review Report.

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 evaluated whether the Army Audit Agency's system of quality control in effect for the 3-year period that ended on December 31, 2019, was suitably designed and whether the Army Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. The Naval Audit Service issued a peer review rating of *pass* for the Army Audit Agency's non-SAP projects.

The Naval Audit Service also issued 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 identified five findings involving competence, planning, supervision, evidence and documentation, and reporting that the Naval Audit Service did not consider to be significant enough to affect the opinion expressed in its December 16, 2020 System Review Report.



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

August 29, 2024

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Letter of Comment on the External Peer Review of Army Audit Agency Special Access Program Projects (Report No. DODIG-2024-127)

We reviewed the system of quality control for the Army Audit Agency Special Access Program (SAP) projects in effect for the 3-year period that ended on December 31, 2022. We issued our System Review Report on August 29, 2024, in which the Army Audit Agency received a rating of *pass* for its SAP projects. The finding in this Letter of Comment should be read in conjunction with the System Review Report. The finding described below is not significant enough to affect our opinion rendered in the System Review Report. We considered the nature, pervasiveness, and relative importance of the finding and the extent of compliance with Government Auditing Standards taken as a whole. We determined that the finding does not rise to the level of a deficiency as defined in the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General."²

Finding. Auditors Did Not Obtain a Written Representation Letter or Include a Required Reporting Statement for One Agreed-Upon Procedures Engagement

For the one SAP agreed-upon procedures (AUP) engagement we reviewed, Army Audit Agency auditors did not obtain a written representation letter or include a reporting statement required by Government Auditing Standards and American Institute of Certified Public Accountants (AICPA) standards. Government Auditing Standard (GAS) 7.78 establishes requirements for AUP engagements in addition to the requirements for AUP engagements contained in the AICPA's Statements on Standards for Attestation Engagements (SSAE). GAS 7.78 states that auditors should comply with the additional Government Auditing Standards requirements, along with the applicable AICPA requirements, when citing Government Auditing Standards in their AUP engagement reports. Additionally, AICPA AT-C Section 215A establishes performance and reporting requirements and application guidance for all AUP engagements.³

² CIGIE, "Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General," March 2020 revision. The CIGIE Guide defines a deficiency as one or more findings that could create a situation in which the audit organization would not have reasonable assurance of performing and reporting in conformity with applicable professional standards in one or more important respects.

³ AICPA standards refer to the auditor as the practitioner. For the purposes of this report, we use the term "auditor." Also, AICPA standards define the responsible party as the party responsible for the underlying subject matter, which is a party other than the practitioner.

Auditors Did Not Obtain a Written Representation Letter from the Engaging Party

Army Audit Agency auditors did not obtain a written representation letter from the engaging party. AICPA AT-C Section 215A, "Agreed-Upon Procedures," paragraph .28, states that the practitioner should request written representations from the responsible party in the form of a letter addressed to the practitioner.⁴ The AICPA standard further states that written representations should include the following items.

- The responsible party's assertion about the subject matter based on the criteria.
- A statement that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner's report.
- Acknowledgment of the responsibility for:
 - the subject matter and the assertion;
 - selecting the criteria, when applicable; and
 - determining that such criteria are appropriate for the responsible party's purposes.
- A statement that the responsible party has provided the practitioner with access to all records relevant to the subject matter and the agreed-upon procedures.
- A statement that the responsible party has disclosed to the practitioner other matters as the practitioner deems appropriate.

Additionally, AICPA AT-C Section 215A, "Agreed-Upon Procedures," paragraph .30, states that the date of the written representations should be as of the date of the practitioner's report. The written representations should address the subject matter and periods covered by the practitioner's findings.

Army Audit Agency Policy Branch personnel acknowledged that AICPA standards require auditors to obtain a written representation letter. However, they stated that the auditors did not obtain the letter because the April 2019 version of U.S. Army Audit Agency Regulation 36-7, "Attestation Engagements," did not include policies and procedures requiring the auditors

⁴ We used the AICPA SSAE No. 18, AT-C Section 215A, "Agreed-Upon Procedures Engagements," to assess the Army Audit Agency's compliance with AICPA AUP reporting standards. AT-C Section 215A was effective for AUP reports dated on or after May 1, 2017. The Army Audit Agency issued the AUP report we reviewed on November 16, 2020. In December 2019, the AICPA issued SSAE No. 19, AT-C Section 215, "Agreed-Upon Procedures Engagements," which superseded SSAE No. 18, AT-C Section 215A. SSAE No. 19 became effective for AUP reports dated on or after July 15, 2021.

to obtain the letter.⁵ The Policy Branch personnel stated that it was an oversight that the Policy Branch did not establish adequate policies and procedures for obtaining written representation letters during AUP engagements.

It is important that auditors comply with Government Auditing Standards and AICPA performance requirements for obtaining a written representation letter because it reduces the possibility of misunderstandings between the practitioner and the responsible party.

Auditors Did Not Include a Statement in the Report Required by AICPA Standards

Army Audit Agency auditors did not include a reporting statement in the AUP report, as the AICPA standards require. Specifically, the report did not include a statement that the auditors were not engaged to, and did not conduct, an examination or review.⁶ AICPA AT-C Section 215A, paragraph .35, states that the practitioner's AUP report should include a statement that the practitioner was not engaged to and did not conduct an examination or review. The omission occurred because U.S. Army Audit Agency Regulation 36-7 did not contain policies and procedures requiring the auditors to include the reporting statement in an AUP report.

Army Audit Agency auditors need to comply with Government Auditing Standards and AICPA reporting requirements for all AUP engagements because they help to ensure that report users understand the nature of the work performed and the results of the engagement.

The Army Audit Agency Took Corrective Actions Before Our Review

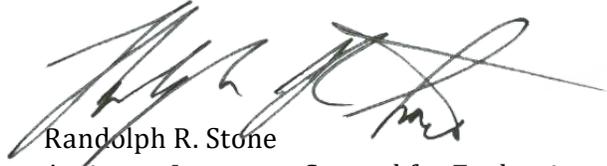
The Army Audit Agency took corrective actions to address this finding before our review. The Army Audit Agency Policy Branch updated U.S. Army Audit Agency Regulation 36-7 on September 6, 2022. The updated regulation includes policies and procedures that require the auditors to request and obtain written representations from the responsible party. The updated regulation also requires the auditor to include a statement in AUP reports that they were not engaged to, and did not conduct, an examination or review. The updated regulation provides reasonable assurance of future compliance with Government Auditing Standards and AICPA standards when the Army Audit Agency conducts AUP engagements. Because the Army Audit Agency already took adequate corrective actions to address this finding, we are not making any recommendations.

⁵ U.S. Army Audit Agency Regulation 36-7, "Attestation Engagements," April 22, 2019.

⁶ An attestation engagement can provide one of three levels of service as defined by the AICPA: an examination engagement, a review engagement, or an AUP engagement.

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

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read 'Randolph R. Stone', written in a cursive style.

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

Acronyms and Abbreviations

- AICPA** American Institute of Certified Public Accountants
- AUP** Agreed-Upon Procedures
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- SAP** Special Access Program
- SSAE** Statement on Standards for Attestation Engagements



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U.S. DEPARTMENT OF DEFENSE

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