



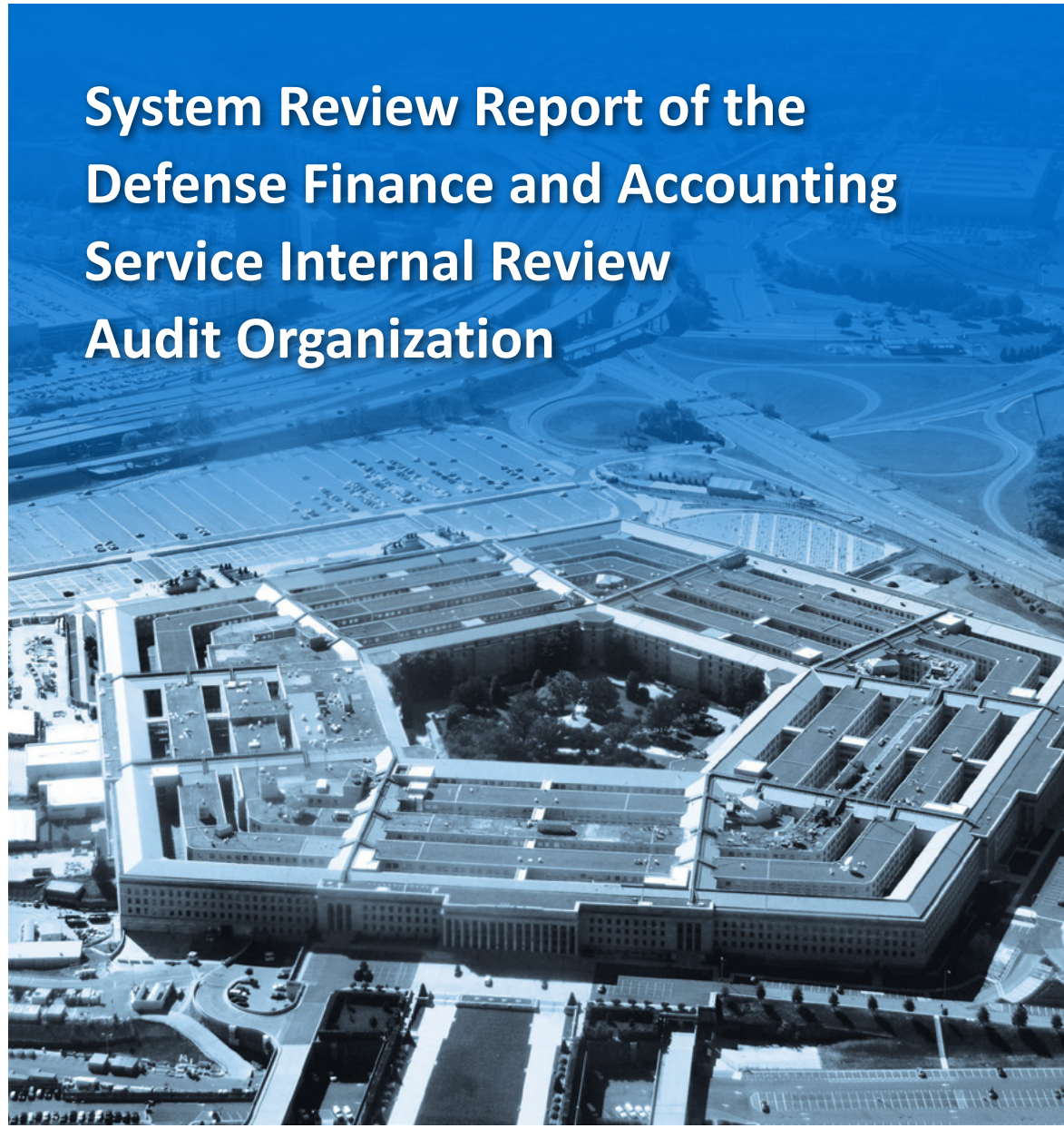
INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 11, 2020



System Review Report of the Defense Finance and Accounting Service Internal Review Audit Organization



INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

December 11, 2020

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: System Review Report of the Defense Finance and Accounting Service Internal Review Audit Organization (Report No. DODIG-2021-032)

Attached is the System Review Report of the Defense Finance and Accounting Service Internal Review Audit Organization. We are providing this report for your information and use. We provided a discussion draft of this report to the Defense Finance and Accounting Service Internal Review Audit Organization officials, who responded with two minor comments for clarification, which we incorporated into the report.

We conducted the review in accordance with the 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.

We appreciate the cooperation and courtesies extended to our staff during the peer review. If you have any questions, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is located below the text.

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





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December 11, 2020

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: System Review Report on the Defense Finance and Accounting Service Internal Review Audit Organization (Report No. DODIG-2021-032)

We have reviewed the system of quality control for the Defense Finance and Accounting Service (DFAS) Internal Review (IR) audit organization in effect for the 3-year period ended June 30, 2020. A system of quality control encompasses the DFAS IR audit organization's structure, the policies adopted, and the 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 DFAS IR audit organization in effect for the 3-year period ended June 30, 2020, has been suitably designed and complied with to provide the DFAS IR audit organization with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The DFAS IR audit organization has received a rating of *pass*.

Basis of Opinion

We conducted our review 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*, March 2020.

During our review, we interviewed DFAS IR audit personnel and obtained an understanding of the nature of the DFAS IR audit organization and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessment, we selected three attestation engagements, three performance audits, and one terminated audit that DFAS IR conducted from July 1, 2017, through June 30, 2020. The projects we selected represent a reasonable cross-section of the 52 audits and attestation engagements that the DFAS IR audit organization performed during the 3-year period ended June 30, 2020. In addition, we reviewed two of eight nonaudit service projects that the DFAS IR conducted during the 3-year period. We tested the attestation engagements, performance audits, terminated audit, and nonaudit services for compliance with the *Government Auditing Standards*.

In performing our review, we obtained an understanding of the system of quality control for the DFAS IR audit organization. In addition, we tested for compliance with the DFAS IR audit organization's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the DFAS IR audit organization's policies and procedures on the 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.

We met with the DFAS IR 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. The Enclosure identifies the scope and methodology, the DFAS IR audit offices we visited, and the attestation engagements, performance audits, terminated audit, and nonaudit services that we reviewed.

Responsibilities and Limitations

The DFAS IR audit organization is responsible for establishing and maintaining a system of quality control designed to provide the DFAS IR with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and the DFAS IR audit organization's compliance based on our review.

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.

A handwritten signature in black ink, appearing to read 'Randolph R. Stone', with a stylized flourish at the end.

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

Enclosure

Scope and Methodology

We conducted this peer review from June 2020 through November 2020 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 require that we obtain an understanding of the reviewed organization's system of quality control and conclude whether the:

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

The DFAS IR audit organization maintains three field offices as shown in Table 1.

Table 1. DFAS IR Field Office Locations

| Audit Office | Location |
|----------------------|-----------------------|
| DFAS IR Field Office | Indianapolis, Indiana |
| DFAS IR Field Office | Columbus, Ohio |
| DFAS IR Field Office | Cleveland, Ohio |

Source: The DoD OIG.

The Office of the Director of DFAS IR is located in the Columbus, Ohio field office.

This peer review covered the 3-year period from July 1, 2017, through June 30, 2020. We tested compliance with the DFAS IR audit organization system of quality control to the extent we considered appropriate. These tests included a review of nonaudit services, as well as non-statistically selected projects, comprising of performance audits, attestation engagements, and a terminated audit, that the DFAS IR audit organization conducted from July 1, 2017, through June 30, 2020. We used the appendixes and procedures in the March 2020 CIGIE Guide identified in the following sections to conduct this external peer review.

Policies and Procedures (CIGIE Guide Appendix A)

We reviewed the DFAS IR 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. We requested that the DFAS IR audit organization complete Column 1 of the CIGIE Guide's Appendix A, "Policies and Procedures," and provide a copy of relevant policies and procedures. In Column 2 of

Appendix A, we recorded our conclusions and comments on whether the DFAS IR audit organization's policies and procedures comply with the *Government Auditing Standards*. We concluded that the DFAS IR policies and procedures were compliant with *Government Auditing Standards*.

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

Using the CIGIE Guide's Appendix B checklist, we tested the DFAS IR audit organization's compliance with the *Government Auditing Standards* general standards, consisting of independence, competence, continuing professional education, and quality control and peer review. We reviewed the continuing professional education documentation for 20 of the 62 DFAS IR auditors and supervisors employed as of June 30, 2020, to determine whether they obtained the required number of continuing professional education hours and to determine whether the auditors were competent. We also reviewed documentation of independence to determine whether the DFAS IR audit organization met the *Government Auditing Standards* requirements for independence documentation.

Additionally, we reviewed all three of the DFAS IR internal quality assurance reviews that the DFAS IR audit organization completed from July 1, 2017, through June 30, 2020, to determine whether the audit organization:

- performed monitoring procedures 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, at least annually, with identification of any systemic or repetitive issues needing improvement with recommendations for corrective action.

We concluded that DFAS IR was compliant with the *Government Auditing Standards* general standards, consisting of independence, competence, continuing professional education, and quality control and peer review.

Attestation Engagements Conducted by the DFAS IR Audit Organization (CIGIE Guide Appendix D)

From July 1, 2017, through June 30, 2020, the DFAS IR audit organization conducted 19 attestation engagements. We non-statistically selected three attestation engagements for review. In selecting our non-statistical sample, we chose projects that would provide a reasonable cross-section of projects that the DFAS IR audit organization completed during the 3-year period. For example, we chose projects that resulted in the selection of various DFAS IR field offices, managers, and auditors. Using the CIGIE Guide's Appendix D, we reviewed the three attestation engagements to determine the extent to which the audits complied with

the *Government Auditing Standards*. We concluded that the DFAS IR attestation engagements we reviewed were compliant with the *Government Auditing Standards*. Table 2 lists the attestation engagements we selected for review.

Table 2. DFAS IR Attestation Engagements Selected

| Project Title | Project Number | DFAS IR Field Office Location |
|---|----------------|-------------------------------|
| Civilian and Military Pay SSAE 18 Expansion Accounting/General Ledger Posting and Tax Reporting | 19INAA011 | Indianapolis |
| DFAS Cyber Readiness Reporting Metrics | 19C0AA005 | Columbus |
| Navy and Marine Corps General Fund | 17C0AA009 | Columbus |

Source: The DoD OIG.

Performance Audits Conducted by the DFAS IR Audit Organization (CIGIE Guide Appendix E)

From July 1, 2017, through June 30, 2020, the DFAS IR audit organization conducted 32 performance audits. We non-statistically selected three performance audits for review. In selecting our non-statistical sample, we chose projects that would provide a reasonable cross-section of projects that the DFAS IR audit organization conducted. For example, we chose projects that resulted in the selection of various DFAS IR field offices, managers, and auditors. Using the CIGIE Guide's Appendix E, we reviewed the three performance audits and concluded the audits complied with the *Government Auditing Standards*. Table 3 lists the performance audits we selected for review.

Table 3. DFAS IR Performance Audits Selected

| Project Title | Project Number | DFAS IR Field Office Location |
|---|----------------|-------------------------------|
| Personnel Accountability Program Audit | 19INPA024 | Indianapolis |
| DSSN 6102 and DSSN 8522 IPAC Intransits Audit | 19CLPA003 | Cleveland |
| DD Form 577 Processing Audit | 18CLPA007 | Cleveland |

Source: The DoD OIG.

Terminated Audit (CIGIE Risk Assessment Procedure)

The DFAS IR audit organization's universe of audits from July 1, 2017, through June 30, 2020, included one terminated audit. We reviewed the audit documentation for the terminated audit, Project No. 17COPA005, "Audit of DFAS Europe DoD Location National Payroll Micro App," to determine whether the DFAS IR auditors documented the results of the work to the date of termination and the reason they terminated the audit. DFAS IR complied with the *Government Auditing Standards* for terminating audits.

Nonaudit Service Projects Conducted by the DFAS IR Audit Organization

From July 1, 2017, through June 30, 2020, the DFAS IR audit organization conducted eight nonaudit service projects. We non-statistically selected two nonaudit service projects. In selecting our non-statistical sample, we chose projects that would provide a reasonable cross-section of projects that the DFAS IR audit organization completed during the 3-year period. For example, we chose projects that resulted in the selection of various DFAS IR field offices. We reviewed the nonaudit service projects to determine whether the projects were compliant with the *Government Auditing Standards*. We determined that the nonaudit service projects were compliant with the *Government Auditing Standards*. Table 4 shows the nonaudit service projects we selected.

Table 4. DFAS IR Nonaudit Service Projects Selected

| Project Title | Project Number | DFAS IR Field Office Location |
|---|----------------|-------------------------------|
| Indianapolis Accounting Operations Fund Balance with Treasury Support | 20INNA015 | Indianapolis |
| Fund Balance with Treasury Account Guidebook | 20CONA010 | Columbus |

Source: The DoD OIG.

Audit Staff Interviews (CIGIE Risk Assessment Procedure)

We non-statistically selected 21 of the 62 auditors at the three DFAS IR audit offices to interview. We selected a cross-section of supervisors and auditors from the DFAS IR Cleveland, Columbus, and Indianapolis field offices. We interviewed the DFAS IR auditors to determine whether DFAS IR audit management communicated quality control policies and procedures to the supervisors and auditors. We also assessed the supervisors' and auditors' understanding of, and compliance with, the DFAS IR quality control policies and procedures. We concluded that the supervisors and auditors are professionally competent and have an adequate understanding of the DFAS IR policies and the *Government Auditing Standards*.

Use of Computer-Processed Data

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

Prior Coverage

During the last five years, the DoD OIG issued one report discussing the external peer review of the DFAS IR audit organization. Unrestricted DoD OIG reports can be accessed at www.dodig.mil/reports.

DoD OIG

Report No. DODIG-2018-082, "External Peer Review on the Defense Finance and Accounting Service Internal Review Organization," March 6, 2018

The DoD OIG evaluated whether the DFAS IR audit organization's system of quality control in effect for the 3-year period ended June 30, 2017, was suitably designed. The DoD OIG also evaluated whether the DFAS IR audit organization complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards.

Acronyms and Abbreviations

CIGIE Council of the Inspectors General on Integrity and Efficiency

DFAS Defense Finance and Accounting Service

IR Internal Review

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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