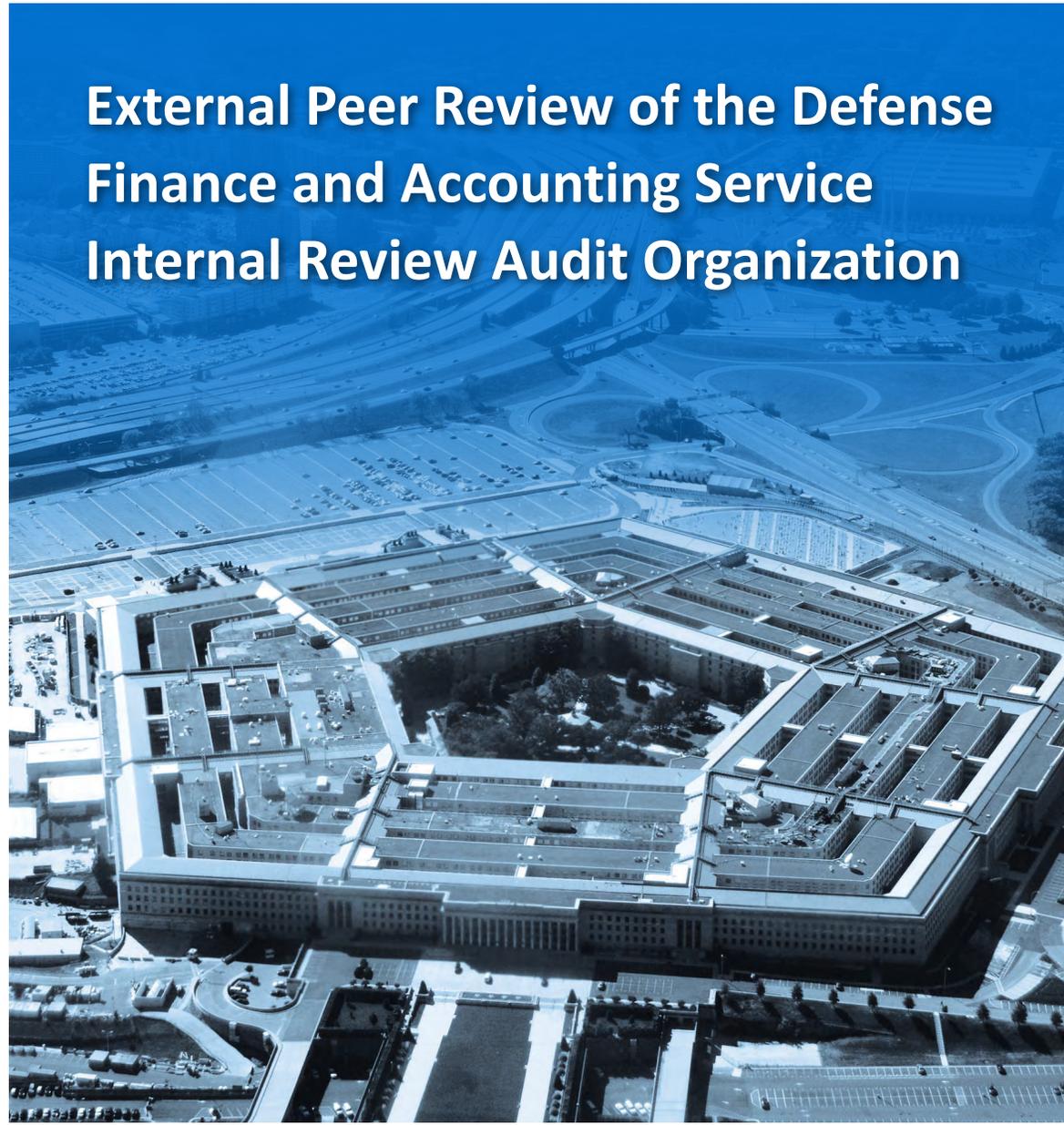




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 22, 2024



External Peer Review of the Defense Finance and Accounting Service Internal Review Audit Organization

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





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

March 22, 2024

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: External Peer Review of the Defense Finance and Accounting Service
Internal Review Audit Organization (Report No. DODIG-2024-067)

This final report provides the results of the DoD Office of Inspector General's external peer review of the Defense Finance and Accounting Service (DFAS) Internal Review (IR) audit organization. We are providing this report for information and use. This report does not contain recommendations. We provided a discussion draft of this report to DFAS IR audit organization officials. They concurred with the discussion draft and 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 below the text "FOR THE INSPECTOR GENERAL:". The signature is stylized and cursive.

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

March 22, 2024

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: System Review Report on the External Peer Review of the Defense Finance and Accounting Service Internal Review Audit Organization
(Report No. DODIG-2024-067)

We 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 that ended on June 30, 2023. A system of quality control encompasses the DFAS IR audit organization's structure, the policies adopted, and procedures established 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 the DFAS IR audit organization in effect for the 3-year period that ended on June 30, 2023, has been suitably designed and complied with to provide the DFAS IR audit organization 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 DFAS IR audit organization has received an external peer review rating of *pass*.

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," March 2020 revision.

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 nonstatistically selected the following 10 projects to test for compliance with Government Auditing Standards and the DFAS IR system of quality control:

- 4 of 37 performance audits,
- 4 of 28 agreed-upon procedures engagements, and
- 2 of 5 nonaudit services.

The 10 projects represent a reasonable cross-section of the universe of projects performed by the DFAS IR audit organization during the 3-year period that ended on June 30, 2023.

In performing our peer review, we tested for compliance with the DFAS IR audit organization 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 10 selected projects. 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.

On March 8, 2024, we held an exit conference with DFAS IR audit organization representatives 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, including our basis for selecting the 10 projects.

Responsibilities and Limitation

The DFAS IR audit organization is responsible for establishing and maintaining a system of quality control designed to provide it with reasonable assurance that the organization 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 and the DFAS IR audit organization'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', with a stylized flourish at the end.

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 July 2023 through March 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 Audit Organizations of Federal Offices of Inspector General” (CIGIE Guide). The standards and guide require that we obtain an understanding of the audit organization’s system of quality control and conclude whether:

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

We also conducted this peer review in accordance with the “Quality Standards for Inspection and Evaluation,” published in December 2020 by CIGIE. 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, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the conclusions.

The Defense Finance and Accounting Service (DFAS) Internal Review (IR) audit organization maintains three field offices as shown in Table 1.

Table 1. DFAS IR Field Office Locations

DFAS IR Field Office	Location
Indianapolis Field Office	Indianapolis, Indiana
Columbus Field Office	Columbus, Ohio
Cleveland 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, 2020, through June 30, 2023. We tested compliance with the DFAS IR audit organization’s system of quality control to the extent we considered appropriate. We selected projects that would provide a reasonable cross-section of work that the DFAS IR audit 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)

We reviewed the DFAS IR audit policies and procedures to determine compliance with Government Auditing Standards. We requested that the DFAS IR audit organization complete Column 1 of the CIGIE Guide, Appendix A, “Policies and Procedures,” and provide a copy of relevant policies and procedures. We recorded our conclusions and comments on whether the policies and procedures were adequate and complied with Government Auditing Standards in Column 2 of Appendix A. We concluded 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 the CIGIE Guide’s Appendix B checklist, we tested the DFAS IR audit organization for compliance 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 DFAS IR audit organization independence records for the auditors assigned to the 10 projects we reviewed. We concluded that the DFAS IR audit organization complied with the independence requirements in Government Auditing Standards.

Competence and Continuing Professional Education

We interviewed a nonstatistical sample of 21 of 70 audit staff employed by the DFAS IR audit organization as of October 16, 2023. The sample included a mix of supervisors and auditors that would provide a reasonable cross-section of audit staff assigned to the DFAS IR field offices. We interviewed the supervisors and auditors to determine their understanding of, and compliance with, Government Auditing Standards and DFAS IR audit organization quality control policies and procedures. Based on the interview results, we concluded that the supervisors and auditors are competent and have an adequate understanding of Government Auditing Standards and DFAS IR audit organization policies and procedures.

We also nonstatistically selected a sample of 21 of 70 audit staff employed by the DFAS IR audit organization during the last completed 2-year continuing professional education (CPE) reporting period to determine whether they earned CPE hours required by Government Auditing Standards. The last 2-year CPE reporting period covered 2020 and 2021. Our nonstatistical sample of 21 supervisors and auditors represents 30 percent of the 70 audit staff employed during the 2-year reporting period. We determined that the 21 audit staff met the CPE requirements.

Quality Control and Peer Review

We reviewed the three internal quality control reviews that the DFAS IR audit organization completed during the 3-year review period to determine if the organization complied with Government Auditing Standards for monitoring of quality procedures. Specifically, we reviewed the internal quality control reviews to determine whether the DFAS IR audit organization:

- performed monitoring procedures that enabled it to assess compliance with Government Auditing Standards and internal 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 problems needing improvement and with recommendations for corrective action.

We determined that the DFAS IR audit organization complied with Government Auditing Standards for monitoring of quality procedures.

Additionally, we determined that the DFAS IR audit organization complied with Government Auditing Standards for peer reviews 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 (CIGIE Guide Appendix D3)

From July 1, 2020, through June 30, 2023, the DFAS IR audit organization completed 28 agreed-upon procedures engagements. We nonstatistically selected four agreed-upon procedures engagements for our review. In selecting our nonstatistical sample, we chose projects that would provide a reasonable cross-section of work that the DFAS IR audit organization completed. For example, we chose projects that resulted in the selection of various DFAS IR field offices, supervisors, and auditors. We reviewed the engagements for compliance with Government Auditing Standards and American Institute of Certified Public Accountants standards using Appendix D3 of the CIGIE Guide. We determined that the DFAS IR audit organization complied with Government Auditing Standards and American Institute of Certified Public Accountants standards in performing the four selected agreed-upon procedures engagements. Table 2 lists the agreed-upon procedures engagements we selected for review.

Table 2. DFAS IR Agreed-Upon Procedures Engagements Selected for Review

Short Title	Project Number	DFAS IR Field Office
Software Licensing Management	22CLAA005	Cleveland
Accountable Capital Property Adjustments	22COAA014	Columbus
MyIT Configuration Management	22COAA018	Columbus
Foreign Military Sales (FMS) Country Case Management Controls	22INAA021	Indianapolis

Source: The DoD OIG.

Checklist for Performance Audits (CIGIE Guide Appendix E)

From July 1, 2020, through June 30, 2023, the DFAS IR audit organization completed 37 performance audits. We nonstatistically selected four performance audits for our review. In selecting our nonstatistical sample, we chose projects that would provide a reasonable cross-section of audits that the DFAS IR audit organization completed. For example, we chose projects that resulted in the selection of various DFAS IR field offices, supervisors, and auditors. We reviewed the performance audits for compliance with Government Auditing Standards using Appendix E of the CIGIE Guide. We determined that the DFAS IR audit organization complied with Government Auditing Standards in performing the four performance audits. Table 3 lists the performance audits we selected for review.

Table 3. DFAS IR Performance Audits Selected for Review

Title	Project Number	DFAS IR Field Office
Audit of the Cleveland Customer Care Center	21CLPA025	Cleveland
Audit of Controls Over the Casualty Travel Pay Process	22INPA020	Indianapolis
Audit of DFAS Europe Controls	23COPA004	Columbus
FY 2022 Audit of the Insider Threat Program	22INPA006	Indianapolis

Source: The DoD OIG.

Nonaudit Services Performed by the DFAS IR Audit Organization

From July 1, 2020, through June 30, 2023, the DFAS IR audit organization completed five nonaudit services. We nonstatistically selected two nonaudit services for our review. In selecting our nonstatistical sample, we chose nonaudit services that would provide a reasonable cross-section of nonaudit services that the DFAS IR audit organization completed. For example, we chose projects that resulted in the selection of various DFAS IR field offices. We reviewed the nonaudit services for compliance with Government Auditing Standards.

We determined that the DFAS IR audit organization complied with Government Auditing Standards when they performed the nonaudit services. Table 4 lists the two nonaudit services we selected for review.

Table 4. DFAS IR Nonaudit Services Selected for Review

Title	Project Number	DFAS IR Field Office
Assistance in Identifying Samples for FY22 DoDIG Audits	22INNA007	Indianapolis
Assistance in Assessing the Completeness of Documentation Supporting Fund Balance with Treasury	22CONA011	Columbus

Source: The DoD OIG.

Use of Computer-Processed Data

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

Prior Coverage

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

DoD OIG

Report No. DODIG-2021-032, “System Review Report of the Defense Finance and Accounting Service Internal Review Audit Organization,” December 11, 2020

The DoD OIG evaluated whether the DFAS IR audit organization’s system of quality control in effect for the 3-year period that ended on June 30, 2020, was suitably designed and complied with to provide the DFAS IR audit organization with reasonable assurance of conformity with the applicable professional standards. The DFAS IR audit organization received a peer review rating of *pass*.

Acronyms and Abbreviations

- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- CPE** Continuing Professional Education
- DFAS** Defense Finance and Accounting Service
- IR** Internal Review

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U.S. DEPARTMENT OF DEFENSE

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