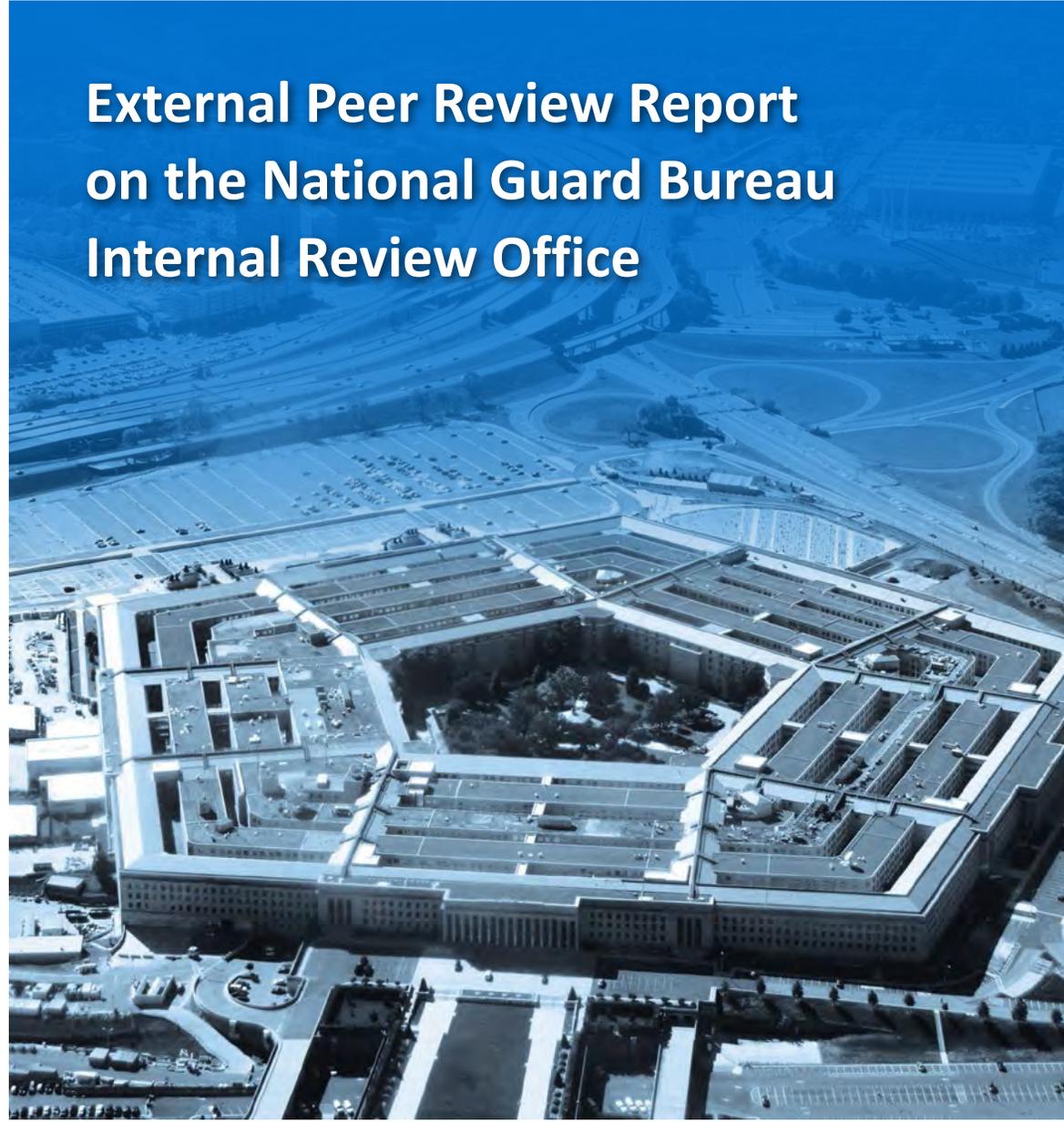




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 18, 2015



External Peer Review Report on the National Guard Bureau Internal Review Office

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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

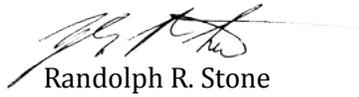
December 18, 2015

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: External Peer Review Report on the National Guard Bureau Internal Review Office
(Report No. DODIG-2016-035)

Attached is the External Peer Review Report on the National Guard Bureau Internal Review Office conducted in accordance with *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*. Your response to the draft report is included as Enclosure 2 with excerpts and our position incorporated into the relevant sections of the report.

We appreciate the cooperation and courtesies extended to our staff during the review.


Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Attachments





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

December 18, 2015

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: Systems Review Report (Report No. DODIG-2016-035)

We have reviewed the system of quality control for the National Guard Bureau Internal Review (NGB IR) Office in effect for the year ended February 28, 2015. A system of quality control encompasses the NGB IR's organizational structure and the 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. The NGB IR Office 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 the NGB IR Office's compliance with standards and requirements based on our review.

Our review was conducted 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 NGB IR personnel and obtained an understanding of the nature of the NGB 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 assessments, we selected audits, nonaudit services, and administrative files to test for conformity with professional standards and compliance with the NGB IR's Office's system of quality control. The audits selected represented a reasonable cross section of the NGB audit organization, with emphasis on higher risk audits. We selected nonaudit services that were completed during our review period. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with NGB IR management to discuss the results of our review. 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 NGB audit organization. In addition, we tested compliance with the NGB IR's quality control policies and procedures to the extent that we considered appropriate. These tests

covered the application of the NGB 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.

Enclosure 1 of this report identifies the NGB IR Offices that we visited and the audits and nonaudit services that we reviewed.

We noted the following deficiencies during our review.

NGB IR

Deficiency 1. The Organizational Placement of the NGB IR Function Creates Independence Impairment

The organizational placement of the IR function at NGB creates an independence impairment and may affect the impact of the audit reports that it issues. The IR Office reports directly to the NGB Comptroller/Director of Administration and Management, which presents a structural threat as defined by GAS. The IR Office is not accountable to and does not report to the Chief or Vice Chief of the NGB. Further, the IR Office is not located organizationally outside the staff or line-management function of an auditable entity.

The IR Office recognizes its organizational independence impairment and includes the following paragraph in its audit reports:

The GAO GAGAS, dated December 2011, consider an audit organization whose head does not meet all of the above criteria a "Structural Threat" to the independence of the organization.¹ Because the head of the NGB IR is not accountable to and does not report to the head or deputy head of NGB – and, is not located organizationally outside the staff or line-management function of an auditable entity, NGB IR cannot be considered an independent auditing organization per GAGAS. This independence threat could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting audits and reporting on audit work. Readers of this audit report, therefore, should consider this information when prescribing actions to be taken as a result of this report.

¹ The NGB IR Office is referring to GAS 3.31 as the criteria relating to the "Structural Threat."

GAS 3.31 states that internal auditors who work under the direction of the audited entity's management are considered independent for the purposes of reporting internally if the head of the audit organization meets all of the following criteria:

- is accountable to the head or deputy head of the government entity or to those charged with governance;
- reports the audit results both to the head or deputy head of the government entity and to those charged with governance;
- is located organizationally outside the staff or line-management function of the unit under audit;
- has access to those charged with governance; and
- is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

Also, GAS 3.14g states a structural threat occurs when an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

We determined that the organizational independence impairment did not rise to a material level that would warrant a lesser opinion of the NGB IR. However, the NGB is best served by an independent and objective internal review organization to provide NGB managers with opinions, conclusions, judgments and recommendations that will be impartial and viewed by others as impartial.

Recommendation 1

The Chief, National Guard Bureau align the Internal Review function so the Internal Review function reports directly to the Chief or Vice Chief of the National Guard Bureau.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Internal Review function will be reassigned to the Office of the Chief of the National Guard Bureau, with the Vice Chief, National Guard Bureau providing authority, direction, control and oversight.

Our Response

The National Guard Bureau comments met the intent of the recommendation. We request the Chief, National Guard Bureau provide the date when the reassignment of the Internal Review function to the Office of the Chief of the National Guard Bureau will be finalized.

Deficiency 2. The NGB IR Office Was Not Monitoring Quality

GAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality. Monitoring of quality is designed to provide management of the audit organization with reasonable assurance that the system of quality control is suitably designed and operating effectively in practice. In addition, GAS 3.95 states the audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

During the period of our review, it was determined that the NGB IR Office had not been performing the monitoring of quality requirement. In addition, the NGB IR Office was not summarizing the results of its monitoring. Further, while the NGB IR had a policy to perform annual quality control reviews of the United States Property and Fiscal (USPFO) IR Offices, the requirement to perform annual quality control reviews of the NGB IR Office was not clear.

Recommendation 2

The Director, National Guard Bureau Internal Review Office, should clarify NGB IR policies and procedures, and prepare a plan for monitoring and summarizing the quality of the work performed at the NGB IR Office.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will issue policy to clarify the quality control policies and procedures by March 31, 2016. Also, along with the supervisory review of each audit project, an auditor will be assigned to conduct an internal quality control review of the NGB-Internal Review office on an annual basis.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

Deficiency 3. Three of the Eight NGB IR Auditors Did not Meet All of the GAS Continuing Education Requirements

GAS 3.76 states auditors should maintain their professional competence through continuing professional education (CPE). Auditors performing work in accordance with GAS should complete at least 24 hours of CPE every 2 years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Also, auditors involved in any amount of planning, directing, or reporting on GAS audits and auditors who are not involved in those activities, but charge 20 percent or more of their time annually to GAS audits should also obtain at least an additional 56 hours of CPE for a total of 80 hours of CPE in every 2-year period. Finally, auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

We determined that three of the eight auditors working at NGB IR did not meet GAS CPE requirements during the most recent completed 2-year period of January 1, 2013, to December 31, 2014. Specifically, the auditors either did not meet the 80 hours of CPE in every 2-year period, at least 24 hours of CPE relating to government auditing, or at least 20 hours of CPE in every year of the 2-year period. However, the three auditors obtained the following CPEs during the 2-year reporting period:

- One auditor completed 49 CPEs and met the requirement for at least 24 hours of government auditing, but did not meet the requirement for at least 20 hours of CPE in every year of the 2-year period.
- One auditor completed 78 CPEs, but did not meet the requirement for at least 24 hours of government auditing.
- One auditor completed 36 CPEs and met the requirement for at least 24 hours of government auditing, but did not meet the requirement for at least 20 hours of CPE in every year of the 2-year period.

NGB IR management stated they do not have an official training program and this has caused some difficulties for the staff to obtain the GAS required CPEs.

Recommendation 3

The Director, National Guard Bureau Internal Review Office, should implement an official training program to ensure auditors maintain their professional competence and complete sufficient continuing professional education. The program should include monitoring to assess whether auditors are meeting the continuing professional education requirements.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will implement an official training program to ensure that all auditors maintain adequate CPE's. This will be automated and monitored within our audit system, with full compliance by January 31, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

NGB United States Property and Fiscal IR Offices

DoD Directive 5105.77, May 21, 2008, states that the National Guard Bureau shall consist of the Chief, NGB, the Director of the Joint Staff, NGB; the United States Property and Fiscal Officers; and such separate personal and special staff offices as are prescribed in statute or required by the Chief. National Guard Regulation 130-6/Air National Guard Instruction 36-2, July 1, 2007,² states the USPFO is responsible for establishing an Internal Review office and an audit program in accordance with Army Regulation 11-7 and National Guard Regulation 11-7.³ Additionally, it states the USPFO will ensure that the Internal Review division remains independent of all functional areas and conducts its mission in accordance with GAS.

Deficiency 4. NGB Dual Status Technicians Perform Audits Which Creates a Potential Auditor Independence Impairment

GAS 3.02 states in all matters relating to the audit work, the individual auditor, whether government or public, must be independent. GAS 3.03 states independence comprises:

a. Independence of Mind

The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

b. Independence in Appearance

The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

² The statement can be found in Chapter 2-9a.

³ This regulation was published in September 1981 and was declared obsolete by the NGB on June 14, 2004.

GAS 3.14 states threats to independence may be created by a wide range of relationships and circumstances, including a self-interest threat. GAS defines a self-interest threat as a threat where a financial or other interest will inappropriately influence an auditor's judgment or behavior.

The NGB USPFO IR Offices⁴ are staffed with dual status technicians and they are allowed to perform audits even though it creates a potential impairment to the auditors' independence. Dual status technicians are military technicians that are employees of the Department of Army or Department of the Air Force and are required to maintain military membership in the National Guard in order to retain employment.

We determined that the potential auditor independence impairment with dual status technicians did not rise to a material level that would warrant a lesser opinion of the NGB IR. However, this practice creates a potential impairment to the auditors' independence and is not in compliance with GAS, National Guard Regulation 130-6/Air National Guard Instruction 36-2, and Army Regulation 11-7. Army Regulation 11-7 states the National Guard will staff USPFO IR offices with competitive civilian employees to ensure an independent outlook and appearance is maintained and to fully comply with professional standards and this regulation.⁵

In January 2013, the Director, NGB IR issued a memorandum to the USPFO IR Offices to address the auditor's responsibilities for disclosing potential impairments to independence. Based on this guidance, the USPFO IR Offices include a disclaimer in their audit reports, informing the users of the report that the audit was performed and/or supervised by a dual status military technician. The USPFO IR Offices suggest that the users consider this information when prescribing actions to be taken as a result of the audit. The Offices further explain that the use of military technicians in this status as federal auditors has been determined by the DoD OIG⁶; the Assistant Secretary of the Army (Financial Management and Comptroller); and the Army Auditor General⁷ to violate GAS for independence under certain circumstances. Specifically, the auditors could be personally impaired by being a member of the military organization under review and by the potential for undue influence by officials subject to review.

⁴ They are located in the 54 states and territories.

⁵ The statement can be found in Chapter 2-2.c of the Army Regulation.

⁶ DoDIG Report APO 93-008, Report on the Quality Assurance Review of the National Guard Bureau Internal Review Organization, March 10, 1993.

⁷ Army Audit Agency Audit Report: AA 01-303, Army Internal Review, Quality Control Program, National Guard Bureau, June 29, 2001.

Recommendation 4

The Chief, National Guard Bureau evaluate efforts to staff United States Property and Fiscal Internal Review Offices with competitive civilian employees to ensure that an independent outlook and appearance is maintained and to fully comply with the Government Auditing Standards, National Guard Regulation 130-6/Air National Guard Instruction 36-2, and Army Regulation 11-7.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the NGB-Internal Review Office will evaluate, track and report these efforts on an annual basis, and they anticipate that the National Defense Authorization Act of 2016 will assist with their efforts to transition all auditors to fully competitive positions ensuring their independence. The Vice Chief, National Guard Bureau will direct a report on the audit workforce and their status by March 1, 2016.

Our Response.

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

NGB IR and State USPFO IR Offices

Deficiency 5. NGB IR Auditors Did Not Consistently Assess the Reliability of Computer-Processed Data

GAS 6.65 states that when auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. GAS 6.66 states the assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. Also, the NGB Audit Documentation and Reporting Guide states that the working papers should include a summary of all tests conducted to assess the reliability of computer-generated data used during the audit, and that the assessment of reliability of computer-generated data must also be discussed in the scope of the report.

For three of the eight projects that we reviewed, NGB auditors did not verify the reliability of the computer-processed information they obtained during the audit. For one of the three projects, we were informed the auditors trusted that the data and information provided to them by the audited entity was reliable.

Recommendation 5

The Director, National Guard Bureau Internal Review Office, should provide training to the audit staff to improve their understanding and knowledge of the Government Auditing Standard on assessing the reliability of computer-processed data.

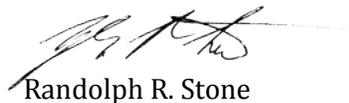
Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the NGB-Internal Review office has coordinated with the GAO to perform training on Assessing the Reliability of Computer Processed Data during the second week of December 2015. The NGB-Internal Review office is tentatively planning to conduct this training during its training workshop in the Summer of 2016.

Our Response

The NGB comments met the intent of the recommendation. No additional comments are required.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of the NGB in effect for the year ended February 28, 2015, has been suitably designed and complied with to provide the NGB IR Office 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*. The NGB IR Office has received an External Peer Review rating of *pass with deficiencies*.⁸ As is customary, we have issued a letter dated December 18, 2015 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosures

⁸ The deficiencies identified did not rise to the level of a significant deficiency because they were not systemic, and taken as a whole, were not significant enough to affect the NGB IR and State USPFO IR Offices' reasonable assurance of performing and/or reporting in conformity with applicable professional standards in all material respects.

Enclosure 1

Scope and Methodology

We tested compliance with the NGB IR Office system of quality control to the extent we considered appropriate. These tests included a review of two of three performance audit projects issued by the NGB IR Office during the period February 28, 2013, through February 28, 2015. We also reviewed one audit project for each of the three USPFO IR Divisions we visited. Table 1 lists the audit projects reviewed and the NGB IR office that conducted the audit. In addition, we tested GAS and NGB IR policy compliance for nonaudit services and continuing professional education hours. Table 2 lists the nonaudit services reviewed. We determined the NGB auditors complied with GAS and documented their evaluation of threats to independence before performing nonaudit services. We were unable to review any internal quality control reviews performed at NGB IR because they did not perform any such reviews. Table 3 lists the Florida USPFO IR Division's internal quality control review audit projects we reviewed. In December 2014, the NGB IR conducted the quality control review of the Florida USPFO IR Division.

Additionally, we interviewed personnel at NGB IR and within the USPFO IR Divisions to determine their understanding of and compliance with quality control policies and procedures. Finally, we reviewed NGB IR audit policies and procedures.

We visited the NGB IR sites located in Arlington, Virginia, Lawrenceville, New Jersey, Little Falls, Minnesota, and Tomah, Wisconsin.

Table 1. Reviewed Audits Performed by NGB IR

Audit Title	Date Audit Was Announced	Report Number and Issuance Date	Type of Review/NGB IR Office
Audit of the Youth Challenge Program Contract (YCPC)	June 26, 2013	2013-005, March 20, 2014	Performance/NGB IR
Audit of the Advanced Turbine Engine Army Maintenance (ATEAM) OPTEMPO and Demand History Adjustment (DHA) Credits	December 6, 2013	2013-010, February 21, 2014	Performance/NGB IR
Audit of the Master Cooperative Agreement Appendix 23, ANG Security Guards	September 3, 2014	2014-24, April 4, 2015*	Performance/New Jersey
2014-034 MCA Appendix 1021, Real Property Services (RPS) SRM, 148FW, ANG	October 14, 2014	2014-034, January 6, 2015	Performance/Minnesota
ANG Security Cooperative Agreement Mitchell Field	September 29, 2014	2014-041, December 23, 2014	Performance/Wisconsin

* The report was issued after our period of review; however the scope of the audit included Master Cooperative Agreement transactions during FY 2013.

LEGEND

ANG Air National Guard
MCA Master Cooperative Agreement
OPTEMPO Operations Tempo

Table 2. Reviewed Consulting Projects (Nonaudit Services) Performed by NGB IR

Project Number/Title	Report Date	Deliverable	NGB Project Type/ NGB IR Office
RSMS Assessment	December 16, 2013	Memorandum Report	Consulting/NGB IR
IR Consulting Engagement of the New Jersey National Guard 2014 Facilities Inventory and Support Plan (FISP)	June 24, 2014	Memorandum Report	Consulting/New Jersey
IR 2014-033 Convenience Checks, Minnesota Army National Guard	January 28, 2015	Memorandum Report	Consulting/Minnesota
IR 2013-049 Wisconsin Military Academy Billeting Room Rate Review	September 19, 2013	Memorandum Report	Consulting/Wisconsin

LEGEND

RSMS Readiness Sustainment Maintenance Sites

Table 3. Florida Quality Control Reports Reviewed by the Peer Review Team

Audit Title	Date Audit Was Announced	Report Number and Issuance Date	Type of Review
53rd Infantry Brigade Combat Team (IBCT) Government Purchase Card (GPC) Program	January 21, 2014	2014-006, August 1, 2014	Performance
ANG Security Cooperative Agreement	January 28, 2013	2013-010, March 11, 2013	Performance
125th Fighter Wing Government Purchase Card Review	March 8, 2014	2013-013, September 5, 2013	Performance

Enclosure 2

Management Comments



NATIONAL GUARD BUREAU
1636 DEFENSE PENTAGON
WASHINGTON DC 20301-1636

NOV 30 2015

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, POLICY AND OVERSIGHT

Subject: Comments to "National Guard Bureau-Internal Review, Quality Control Review draft report," dated 2 November 2015

1. The National Guard Bureau continually strives to improve our processes. While I was not surprised to learn that my NGB-IR office has controls in place to provide "reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects," I know that we must improve and ensure that proper processes are in place and operating effectively. To that end, my comments and actions address the recommendations identified in your report.

Recommendation #1 – The Chief, National Guard Bureau, align the Internal Review function so the Internal Review function reports directly to Chief or Vice Chief of the National Guard Bureau

Concur. The Chief, National Guard Bureau will reassign the Internal review function to the OCNGB with the Vice Chief, NGB providing authority, direction, control and oversight.

Recommendation #2 - The Director, National Guard Bureau Internal Review Office should clarify NGB IR policies and procedures, and prepare a plan for monitoring and summarizing the quality of the work performed at the NGB IR Office.

Concur. The Director, NGB-IR will issue policy clarifying our quality control policies and procedures by 31 March 2016. In addition to the supervisory review of each audit project an auditor will be assigned to conduct an internal quality control review of the NGB-IR office on an annual basis.

Recommendation #3 - The Director, National Guard Bureau Internal Review Office should implement an official training program to ensure auditors maintain their professional competence and complete sufficient continuing professional education. The program should include monitoring to assess whether auditors are meeting the continuing professional education requirements.

Concur. The Director, NGB-IR will implement an official training program to ensure that all auditors maintain adequate CPE's. This will be automated and monitored within our audit system, with full compliance by 31 January 2016.

Management Comments (cont'd)

Recommendation #4 – The Chief, National Guard Bureau evaluate efforts to staff United States Property and Fiscal Internal Review Offices with competitive civilian employees to ensure that an independent outlook and appearance is maintained and to fully comply with the Government Auditing Standards, National Guard Regulation 130-6/Air National Guard Instruction 36-2, and Army Regulation 11-7.

Concur. The NGB-IR office will evaluate, track and report these efforts on an annual basis. We anticipate that the National Defense Authorization Act of 2016 will assist with our efforts to transition all auditors to fully competitive positions ensuring their independence. I will direct a report on the audit workforce and their status by 1 March 2016.

Recommendation #5 – The Director, National Guard Bureau Internal Review Office should provide training to the audit staff to improve their understanding and knowledge of the Government Auditing Standard on assessing the reliability of computer-processed data.

Concur. The NGB-IR office has coordinated with the Government Accountability Office to perform training on Assessing the Reliability of Computer Processed Data during the second week of December 2015. We are tentatively planning to conduct this training during our training workshop in the Summer of 2016.

2. Regarding DoD-IG's Letter of Comment Recommendations

Recommendation #1 – The Director, National Guard Bureau Internal Review Office should update audit policies to include procedures for:

- Evaluating threats to independence after the audit report is issued.
- Obtaining reasonable assurance of detecting fraud when the auditors identify fraud risks that have occurred or likely to have occurred.
- Extending the audit steps when information comes to the auditors' attention indicating that fraud, significant to the audit objectives, may have occurred.

Concur. The Director, NGB-IR will update audit policies and will issue a fraud audit policy including appropriate audit procedures by 31 March 2016.

Recommendation #2 – The Director, NGB-IR, should finalize and issue the Audit Documentation and Reporting Policy to the NGB-IR auditors.

Concur. The Director, NGB-IR will update, finalize and issue the Audit Documentation and Reporting Policy by 29 February 2016.

Management Comments (cont'd)

Recommendation #3 – The Director, NGB-IR Office, should take action to ensure that referencing is completed and in accordance with their policy.

Concur. The Director, NGB-IR will reemphasize existing policy, ensure that referencing is a focal point of future quality control reviews, as well as providing training at our 2016 training workshop. Referencing will be continually enforced with an initial target completion date of 31 May 2016.

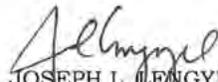
Recommendation #4 – The Director, NGB-IR, should remind the IR audit staff to document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.

Concur. The Director, NGB-IR will remind the IR audit staff regarding their requirements to properly document all independence considerations during the next three staff calls with a target completion date of 31 March 2016.

Recommendation #5 – The Director, NGB-IR Office, should issue guidance and provide training to the USPF O IR Divisions on the usage of audit report templates.

Concur. The Director, NGB-IR will develop and provide training on the usage of audit report templates during their 2016 training workshop with an initial target completion date of 31 May 2016.

3. My point of contact for this memorandum is Mr. Charles Carpenter, SES, Director, Programs and Resources/Comptroller. He may be contacted at 571-256-7290.


JOSEPH L. LENGYEL
Lieutenant General, USAF
Vice Chief, National Guard Bureau

cc: NGJS
NG JA





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

December 18, 2015

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: Letter of Comment (Report No. DODIG-2016-035)

We have reviewed the system of quality control for the National Guard Bureau Internal Review (NGB IR) Office in effect for the year ended February 28, 2015, and have issued our final report on December 18, 2015, in which the NGB IR Office received a rating of pass with deficiencies. The enclosed report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The findings described below were not considered to be of sufficient significance to affect the opinion expressed in the report.

NGB IR

Finding 1. The NGB IR Policies Do Not Address All Government Auditing Standards (GAS) for Independence and Fieldwork

GAS 3.84 states that each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel.

Independence

GAS 3.26 states that if a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAS compliance. The NGB IR Quality Control Review Guide does not contain procedures to evaluate threats to independence after the auditors' report is issued. Also, the NGB IR Policy Memorandum, "Internal Review Policy Memorandum (2013), Impairments to the Government Auditing Standard of Independence," January 1, 2013, does not contain guidance on evaluating threats to independence after the audit report is issued.

Fraud Risk

GAS 6.31 states that when auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. The NGB IR Quality Control Review Guide includes a checklist to verify that the auditors assess risk and potential fraud and abuse during the planning phase of each audit. However, the Quality Control Review Guide does not address the design of procedures

to obtain reasonable assurance of detecting fraud when the auditors identify fraud risks that have occurred or likely to have occurred. Also, the Quality Control Review Guide does not contain procedures to extend the audit steps when information comes to the auditors' attention indicating that fraud, significant to the audit objectives, may have occurred.

Adding policies and procedures to the NGB IR Quality Control Review Guide and "Internal Review Policy Memorandum (2013), Impairments to the Government Auditing Standard of Independence," January 1, 2013 will assist NGB IR management in ensuring that auditors are fully aware of their responsibilities when performing work in accordance with GAS.

Recommendation 1

The Director, National Guard Bureau Internal Review Office, should update audit policies to include procedures for:

- **Evaluating threats to independence after the audit report is issued.**
- **Obtaining reasonable assurance of detecting fraud when the auditors identify fraud risks that have occurred or likely to have occurred.**
- **Extending the audit steps when information comes to the auditors' attention indicating that fraud, significant to the audit objectives, may have occurred.**

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will update audit policies and will issue a fraud audit policy including appropriate audit procedures by March 31, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation.

No additional comments are required.

Finding 2. Draft NGB IR Audit Documentation and Reporting Policy Has Not Been Finalized Since January 2010

The NGB IR Audit Documentation and Reporting Policy has not been finalized since being drafted 5 years ago. During this review, we requested a final copy of the policy and were only provided with a copy, dated January 1, 2010, which contained the Microsoft Word "draft" watermark on all the pages of the policy.

Recommendation 2

The Director, National Guard Bureau Internal Review Office, should finalize and issue the Audit Documentation and Reporting Policy to the National Guard Bureau Internal Review auditors.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will update, finalize and issue the Audit Documentation and Reporting Policy by February 29, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

NGB United States Property and Fiscal Office IR

Finding 3. Deficiencies in the Referencing Process

The NGB IR Audit Documentation and Reporting Policy provide policy and guidance for quality control referencing of audits the NGB IR conducts. It implements portions of GAS on quality control, documentation, and reporting. The Audit Documentation and Reporting Policy states that referencing is the quality control process that includes supervisory reviews that provide reasonable assurance that auditing standards are met. Also, this policy states that the draft reports should be referenced to the objective summaries, tentative findings and recommendations, or working papers as required. For four of the projects reviewed, the draft reports were not referenced and did not comply with the Audit Documentation and Reporting Policy.

Recommendation 3

The Director, National Guard Bureau Internal Review Office, should take action to ensure that referencing is completed and in accordance with their policy.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will reemphasize existing policy, ensure that referencing is a focal point of future quality control reviews, and provide training at our 2016 training workshop. Referencing will be continually enforced with an initial target completion date of May 31, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

Finding 4. Lack of Documentation for Independence Considerations Not Identified by the NGB IR Quality Control Program

In December 2014, the NGB IR Division's Quality Control Program conducted a quality control review of the Florida United States Property and Fiscal Office (USPFO) IR Division to determine whether the Florida USPFO IR Division and its personnel complied with professional auditing standards and applicable legal and regulatory requirements while performing work. We reviewed three audit projects completed by the Florida USPFO IR Division to determine whether the significant conclusions reached by the NGB IR were reasonable and consistent with those of the external peer review team.

For the three projects we reviewed, the auditors did not document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. This deficiency is not consistent with the NGB IR Quality Control Program's conclusion that the Florida USPFO IR Division was adhering to the GAS independence standard. The Florida USPFO IR Division included disclaimer statements in their audit reports that disclosed potential impairments to independence when auditors who were members of the National Guard or dual status technicians performed or supervised audits, but this is not sufficient to fully comply with GAS.

GAS 3.59a requires auditors to document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the GAS Conceptual Framework for Independence. Although insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAS quality control and assurance requirements.

Recommendation 4

The Director, National Guard Bureau, Internal Review Office, should remind the Internal Review audit staff to document independence considerations to provide evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director, NGB-Internal Review will remind the Internal Review audit staff on the requirements to properly document all independence considerations during the next three staff calls with a target completion date of March 31, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.

Finding 5. Use of Audit Report Templates by USPFO IR Divisions

GAS contains requirements, guidance, and considerations for performing and reporting on attestation engagements. The term “agreed-upon procedures” should only be used when performing and reporting on such an engagement. Additionally, GAS states an attestation engagement can provide one of three levels of service, namely an examination engagement, a review engagement, or an agreed-upon procedures engagement.

Two of the three USPFO IR Divisions issued reports that included the term “agreed upon procedures” even though the reports were communicating the results of performance audits, not an attestation engagement. We were informed the USPFO IR Divisions were using a report template which was shared among the Divisions and they did not modify the template to properly identify the work performed.

Recommendation 5

The Director, National Guard Bureau Internal Review Office, should issue guidance and provide training to the USPFO IR Divisions on the usage of audit report templates.

Management Comments

The Vice Chief, National Guard Bureau concurred with the recommendation and stated the Director NGB-Internal Review will develop and provide training on the usage of audit report templates during their 2016 training workshop with an initial target completion date of May 31, 2016.

Our Response

The National Guard Bureau comments met the intent of the recommendation. No additional comments are required.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight



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