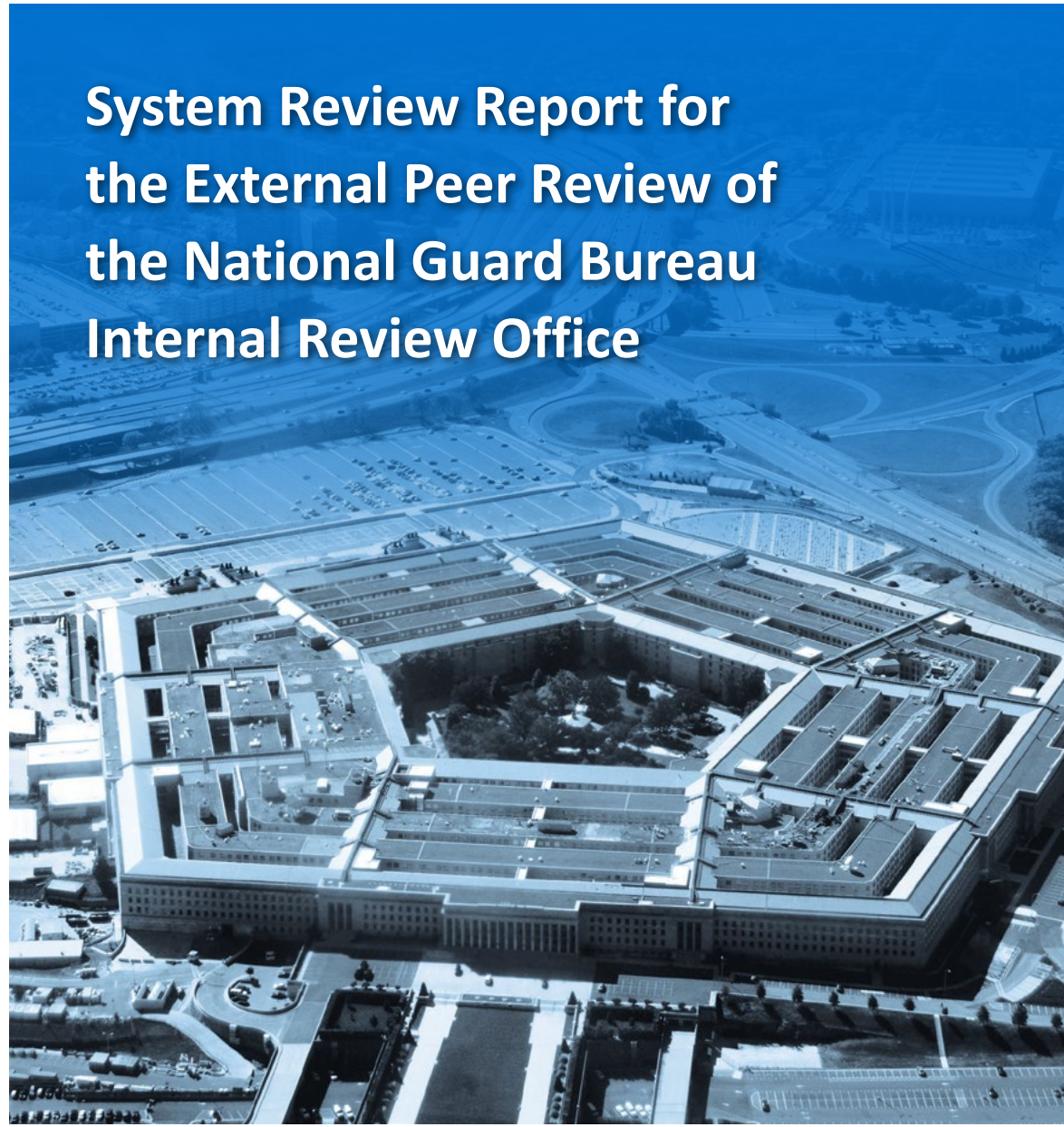




INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 7, 2019



System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office





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

February 7, 2019

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: System Review Report for the External Peer Review of the
National Guard Bureau Internal Review Office
(Report No. DODIG-2019-052)

We are providing this report for your information and use. We conducted this peer review from February 2018 through November 2018 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*.

Enclosure 1 of the report identifies the scope and methodology for the review. We considered management comments on a draft of this report when preparing the final report. Comments from NGB IR addressed all the specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

If you have any questions, please contact Carolyn R. Hantz at (703) 604-8877 or e-mail at Carolyn.Hantz@dodig.mil. We appreciate the cooperation and assistance received during the peer review.

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

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosures:
As stated





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DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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February 7, 2019

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: System Review Report for the National Guard Bureau Internal Review Office (Report No. DODIG-2019-052)

We have reviewed the system of quality control for the National Guard Bureau Internal Review (NGB IR) Office in effect for the period ended February 28, 2018. A system of quality control encompasses the NGB IR's organizational structure, 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, an attestation engagement, nonaudit services, and administrative files to test for conformity with professional standards and compliance with the NGB IR's system of quality control. We reviewed 2 of 15 performance audits conducted by the NGB IR Office during the period of January 1, 2016 through February 28, 2018. We also reviewed 7 of 51 audits and 1 of 1 attestation engagements conducted at 4 United States Property and Fiscal Office (USPFO) IR Divisions during the period under review. In addition, we reviewed 1 of 5 nonaudit services performed at NGB IR and 10 of 47 performed at the USPFO Divisions. The audits selected represented a reasonable cross section of the NGB audit organization, with emphasis on higher risk audits. 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.¹ We believe that the procedures we performed provide a reasonable basis for our opinion.

¹ The USPFO IR Divisions are state-level NGB IR offices that are organizationally aligned under and report directly to the United States Property and Fiscal Officer who is the independent Federal official in each state.

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.

In our opinion, except for the deficiencies described in this report, the system of quality control for the NGB IR Office in effect for the period ended February 28, 2018, 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*.

The formulation of the External Peer Review rating of *pass with deficiencies* was based upon the overall conclusion drawn from the assessment of the design of the NGB IR Office's system of quality control and the extent of compliance with GAS and NGB IR policies and procedures. The NGB IR Audit Handbook, though in draft form until January 2018, was deemed adequate by us in December 2015 during the previous external peer review of the NGB IR Office. Also, the NGB IR Office's annual quality review policy was clarified in December 2016 and monitoring procedures began in December 2017. In addition, even though explanations were needed for us to understand work performed, we determined there was sufficient evidence to support findings, conclusions, and recommendations in NGB IR audit reports. Lastly, corrective actions were taken in July and August 2018 related to documenting entity management oversight of nonaudit services.

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. 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.

Organization of the National Guard Bureau Internal Review Office

The NGB IR Office is an independent audit activity serving the Chief, National Guard Bureau. The NGB IR Office serves to assist senior managers in effectively furnishing objective analyses, appraisals, recommendations, consultations, and independently generated information concerning managed activities.

The NGB IR Office consists of the Headquarters Office and the United States Property and Fiscal Office (USPFO) Internal Review Divisions. The USPFO IR Divisions are state-level NGB IR offices that are organizationally aligned under and report directly to the United States Property and Fiscal Officer who is the independent Federal official in each state.

As the office of primary responsibility, the NGB IR Headquarters Office provides guidance and oversight to the state internal review offices and develops and provides training to national and state level auditors.

Deficiencies 1 through 4 address deficiencies identified at the NGB IR Headquarters level. Deficiencies 5 through 7 address the deficiencies identified at the four NGB USPFO Internal Review Divisions that we selected for evaluation.

Deficiency 1. Audit Documentation and Reporting Policy Was Not Implemented Until January 2018

GAS 3.82a states each audit organization performing audits in accordance with GAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. In addition, GAS 3.84 states each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel.

The NGB IR's system of quality control includes the Audit Documentation and Reporting Handbook. The purpose of the Handbook is to provide information relative to audit documentation and reporting procedures, incorporate standards set forth in GAS, and provide general guidance for Internal Review activities.

We determined that the Handbook was not finalized and implemented until January 2018, 8 years after it was drafted. During the previous external peer review of the NGB IR Office, we found that the Handbook had not been finalized since being drafted in January 2010.² In addition, during the previous peer review, we reviewed the Handbook and deemed it adequate. Specifically, we determined that the Handbook, if properly adopted and implemented, would provide NGB IR with reasonable assurance of compliance with GAS. In December 2015, as part of the previous peer review, we recommended that NGB IR finalize and issue the Handbook to the audit staff.

In response to our recommendation from the previous external review, NGB IR management stated that the Handbook would be implemented by February 29, 2016. However, we did not find evidence that the Handbook had been finalized and implemented prior to the current version, dated January 1, 2018.

² Report No. DODIG-2016-035, "External Peer Review Report on the National Guard Bureau Internal Review Office," December 18, 2015.

Prior to January 1, 2018, the draft version of the Handbook was available online for the audit staff to refer to when performing audits. The NGB IR Director did not have a dedicated staff member solely responsible for policies and did not want to finalize the Handbook until he had a chance to fully review the policy to ensure that it conformed to GAS.

NGB IR finalized and implemented the Handbook; therefore, we are making no recommendations for this deficiency.

Deficiency 2. Monitoring of Quality Did Not Begin Until December 2017

GAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization. Monitoring of quality is an ongoing, periodic assessment of work completed on audits. Monitoring is designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are 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 previous external peer review of the NGB IR Office, we determined that NGB IR did not monitor the quality of work completed on audits. Further, while NGB IR had a policy to perform annual quality control reviews of the United States Property and Fiscal Office (USPFO) IR Divisions, the requirement to perform annual quality control reviews at NGB IR was not clear.³ Specifically, the policy did not clarify whether annual quality control reviews would be performed at NGB IR.

In response to the results of the previous external peer review, NGB IR management stated that NGB IR would issue policy to clarify the quality control policies and procedures by March 31, 2016. Also, an auditor would be assigned to conduct an internal quality control review of the NGB IR on an annual basis. However, during this external peer review of the NGB IR Office, we determined that NGB IR did not clarify the annual quality control review policy until December 9, 2016, and did not begin to perform monitoring procedures until December 11, 2017.

On December 9, 2016, NGB IR issued the “Internal Review Policy Memorandum, National Guard Bureau Quality Control Review Program” to the audit staff. The purpose of the memorandum is to provide policy and guidance for the NGB IR Quality Control Review Program. The policy

³ The USPFO IR Divisions are state-level NGB IR offices that are organizationally aligned under and report directly to the United States Property and Fiscal Officer who is the independent Federal official in each state.

states internal quality control reviews are to be performed annually (every 12 months) by members of the IR staff or members from another IR office to appraise the quality of the work performed.

The quality control review that began on December 11, 2017, was completed on December 15, 2017. NGB IR summarized the results of its monitoring procedures in QCR Final Report No. 2017Q021, "Quality Control Review of the National Guard Bureau Internal Review," March 8, 2018.

Recommendation, Management Comments, and Our Response

Recommendation 1

We recommend that the National Guard Bureau Internal Review Office Director verify that monitoring efforts are being performed or have started for fiscal year 2018 and provide the DoD OIG a copy of the associated quality control review report by June 2019.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that the NGB IR will conduct another internal quality control review in 2019. The results of this effort will be provided to the DoD OIG by June 28, 2019.

Our Response

Comments from the Director addressed all the specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that monitoring efforts at NGB IR are being performed or have started for fiscal year 2018.

Deficiency 3. Auditors Did Not Prepare Audit Documentation in Sufficient Detail

GAS 6.79 states auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.

For the Report No. 2016-008, "Audit of the National Maintenance Program," March 22, 2018, and Report Number 2016-007, "Follow-Up Audit of the Alaska National Guard Management of Federal Resources Internal Review," January 25, 2018, auditors did not prepare audit

documentation in sufficient detail, and as a result, verbal explanations were necessary to assist the peer review team to understand the work performed. Even though explanations were needed for us to understand the work performed, we determined that there was sufficient and appropriate evidence that supported the findings, conclusions, and recommendations before NGB IR issued its audit reports.

For the Audit of the National Maintenance Program, the audit included nine summary working papers. Six of the summary working papers did not include one or more working paper elements such as the results section. Specifically,

- three of the nine working papers included a scope that did not identify the documents that were reviewed,⁴
- one of the nine working papers did not include the methodology,
- two of the nine working papers did not include a results section to detail the outcome of the auditor's tests, analysis, and discussions,
- four of the nine working papers' conclusion section did not answer the purpose for which auditors prepared the working paper, and
- two of the nine working papers did not include a conclusion section.

For the Follow-Up Audit of the Alaska National Guard Management of Federal Resources Internal Review, summary working papers were adequate. However, working papers that supported the summary working papers needed improvement. For example:

- the auditor's armory closure Microsoft Office Excel worksheet analysis did not have legends to explain the auditors handwritten tick marks and related deletions,
- the significance of the colors in color-coded entries in worksheets was not explained,
- supporting documentation lacked information regarding its purpose and source, and
- auditors' handwritten notes were illegible.

Supporting documentation does not need a purpose, source, scope, or conclusion on the document itself. However, purpose, source, scope, or conclusion should be in the summary working paper attached or linked to the supporting documentation. Including these working paper elements would have allowed an experienced auditor, having no previous connection to the audit, to understand the results of audit procedures performed, the audit evidence obtained, and its source, as required by GAS 6.79.

During both projects, NGB IR did not have policies and procedures in place for formatting summary working papers or annotating supporting working paper documentation to show its significance to the attached or linked summary working paper.

⁴ GAS 6.09 states the scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program and the necessary documents or records included.

The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. However, the draft version of the Handbook was available online for the audit staff to use. The NGB IR Audit Documentation and Reporting Handbook contains guidance regarding the standard summary working paper format that auditors must use. However, the Handbook does not provide guidance for annotating supporting working paper documentation to show its significance to the attached or linked summary working paper.

When auditors do not prepare audit documentation in sufficient detail, an experienced auditor, having no connection to the audit, cannot determine whether the audit work completed satisfactorily answered the audit objective, as required by GAS 6.79.

Recommendation, Management Comments, and Our Response

Recommendation 2

We recommend that the National Guard Bureau Internal Review Office Director develop and implement policies and procedures for annotating supporting working paper documentation to show its significance to the summary working paper.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that the NGB IR will implement policies and procedures for annotating supporting working paper documentation to show its significance to the summary working paper. The policy will be implemented by June 28, 2019.

Our Response

Comments from the Director addressed all the specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR has implemented policies and procedures for annotating supporting working paper documentation to show its significance to the summary working paper.

Deficiency 4. Supervisors Did Not Perform Adequate Reviews

GAS 6.53 states audit supervisors or those designated to supervise auditors must properly supervise audit staff. In addition, GAS 6.54 states audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, and reviewing the work performed.

The NGB IR supervisors did not perform adequate reviews during the Audit of the National Maintenance Program. Supervisors signed the summary working papers for the project, but we found that the summary working papers were missing elements such as the results sections, as identified in Deficiency 3. We believe adequate supervisory reviews would have detected that the elements were missing.

During a conversation with supervisory auditors from the NGB IR Office, the supervisory auditors stated they discussed the same working paper deficiencies we identified with the auditor who prepared the working paper. However, there was no documentation in the project file to indicate the deficiencies were corrected. In addition, the supervisor did not identify the deficiencies with the working papers that were noted by the peer review team. The supervisory comments reflected basic things the auditor should have done, such as signing and dating the working papers.

During the project, NGB IR did not have policies and procedures in place for supervisory reviews. The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. However, the draft version of the Handbook was available online for supervisors to refer to when supervising audits. The Handbook states that supervisors, at a minimum, should ensure that standards for working paper preparation are met.

Even though additional information and explanations were needed for the supervision deficiencies, we concluded the audit reports were supported and reliable.

Recommendation, Management Comments, and Our Response

Recommendation 3

We recommend that the National Guard Bureau Internal Review Office Director:

- a. Evaluate the adequacy of supervisory reviews on a sample of audits completed after January 1, 2018 and document the evaluation in writing.**
- b. Remind supervisors, in writing, the importance of complying with Government Auditing Standards.**

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that he will evaluate and document the adequacy of supervisory reviews while also reminding supervisors of the importance of documenting these reviews. The actions will be completed by June 14, 2019.

Our Response

Comments from the Director addressed all the specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR Office Director evaluated and documented the adequacy of supervisory reviews while also reminding supervisors of the importance of documenting these reviews.

Deficiency 5. Auditors Did Not Adequately Develop the Elements of a Finding

GAS 6.73 states auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding. GAS 6.74 defines the elements of a finding as the condition, cause, and effect.

GAS 7.14 states that auditors should present in the audit report sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings assist management and oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives.

For Report No. 2017-029, "Audit of the Government Purchase Card (GPC) Program," January 2, 2018, Michigan USPFO IR Division auditors did not adequately develop the elements of a finding necessary to address the audit objectives and recommendations for corrective action. In addition, for Report No. 2014-009, "Audit of Camp Grayling Billeting Fund," February 9, 2016, the auditors did not adequately identify the effect or potential effect for one of the two findings established. The following subsections identify in detail the instances where auditors did not adequately develop the elements of a finding.

Condition Deficiency

GAS 6.74 defines the elements of a finding as the condition, cause, and effect. GAS 6.75 defines the condition as a situation that exists. The condition is determined and documented during the audit.

For the Audit of the GPC Program, when describing the condition for one of the eight findings, the auditors only discussed one of the participants (cardholders) involved in the GPC process. However, when discussing the cause, the auditors identified an additional participant

(billing officials) who they determined did not follow applicable guidance. The auditors never specified what the additional participant, the billing officials, did or did not do that was not in compliance with the applicable guidance. Table 1 shows the condition and cause.

Table 1. Condition Deficiency for the Audit of the GPC Program

Condition	Cause
<p>A cardholder split purchases on a given day from a vendor where the total of the purchases exceeded the micro-spending limits. In addition, cardholders made multiple purchases of similar items over a period of time when the monthly recurring services were less than the micro-purchase threshold, but the known yearly purchases exceeded the micro-purchase threshold.</p>	<p>Some cardholders and billing officials did not follow applicable guidance.</p>

Cause Deficiencies

GAS 6.76 states the cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

In addition to GAS 6.76, GAS provides supplemental guidance that auditors can use when trying to identify a cause, including when auditors identify deficiencies in internal control that are significant to the subject matter of the performance audit. GAS A6.06 states that when the audit objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit occurred, they are referred to as “cause.” Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes.

The overall objective of the Audit of the GPC Program was to determine whether proper internal controls were maintained over the authorization and use of the GPC. However, the auditors did not adequately identify the cause for three of the eight findings.

Specifically, the auditors did not identify the key factors for the conditions that existed. Instead, they just concluded that the audited entity was not following applicable guidance pertaining to the use of the GPC and other GPC operating procedures such as reconciling and certifying monthly billing statements. This was not sufficient because systemic root causes were not identified which could help improve the GPC Program.

Identifying the cause of findings may assist auditors in making constructive recommendations for correction of the deficiency. Because deficiencies can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if auditors can clearly demonstrate and explain with evidence and reasoning the link between the deficiencies and the key factor or factors they have identified as the cause or causes.

Effect Deficiency

GAS 6.77 states that the effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition and is the measure of the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit. The effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

For one of the findings included in the Audit of the GPC Program, the auditors did not identify the outcome or consequence of the condition. When discussing the effect, the auditors provided more detailed information to describe the condition. For example, the auditors found that the GPC was used to purchase catered meals that were not pre-approved. As a result of this, the auditors stated two of 22 GPC transactions for food purchases were not pre-approved. The effect only quantified the condition identified and did not identify the actual or potential consequence of the condition.

In addition, for the Audit of Camp Grayling Billeting Fund, the auditors did not adequately identify the effect or potential effect for one of the two findings. Specifically, the auditors did not identify the outcome or consequence, such as underpayments, related to the Billeting Fund Manager charging occupants inaccurate, outdated, and unapproved billeting rates. Instead, as the effect, the auditors just stated, that the Billeting Fund did not accurately recover billeting costs.

Recommendation Deficiencies

GAS 7.28 states auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.

Two of the 22 recommendations included in the audit report for the Audit of the GPC Program did not flow logically from the findings and conclusions. For both recommendations, the auditors recommended that policies be implemented to correct deficiencies identified during the audit and to improve programs and operations. However, the audit did not identify a lack of policy as the cause of the condition.

Also, there was no recommendation to correct a deficiency identified during the audit. Specifically, auditors found that cardholders did not always obtain written pre-approval from their billing official for GPC purchases. However, there was no recommendation to ensure that written pre-approvals are obtained for future GPC purchases.

Recommendation, Management Comments, and Our Response

Recommendation 4

We recommend that the Michigan United States Property and Fiscal Office Internal Review Division Supervisory Auditor require the audit staff to obtain training on *Government Auditing Standards*, including how to develop the elements of a finding.

National Guard Bureau Comments

The Michigan USPFO IR Division Supervisory Auditor agreed and stated that the audit staff will be required to obtain training on GAS, including how to develop the elements of a finding. For example, he stated that among other classes planned for fiscal year 2019, auditors will attend the Graduate School USA's "Developing Audit Findings and Recommendations" course in February 2019.⁵

Our Response

Comments from the Supervisory Auditor addressed all the specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the audit staff obtained training on GAS, including how to develop the elements of a finding.

Deficiency 6. Auditors Did Not Comply With GAS and American Institute of Certified Public Accountants Standards When Performing an Attestation Engagement

GAS 5.01 states that auditors performing attestation engagements in accordance with GAS should comply with the American Institute of Certified Public Accountants (AICPA) general attestation standard on criteria, fieldwork and reporting attestation standards, and the

⁵ According to <https://www.graduateschool.edu/content/about-us>, Graduate School USA is an independent, nonprofit educational institution based in Washington, DC. Graduate School USA offers workforce training and services across the U.S. and around the world. In addition, they provide professional development and training courses for the federal government and the private sector.

corresponding statements on standards for attestation engagements. Also, GAS 3.74 states that auditors performing attestation engagements should be knowledgeable in the AICPA general attestation standards related to criteria, the AICPA attestation standards for fieldwork and reporting, and the related Statements on Standards for Attestation Engagements. GAS 3.74 also states that auditors should be competent in applying these standards to the attestation work. In addition, the AICPA's AT-C Section 215 contains performance and reporting requirements and application guidance for all agreed-upon procedures (AUP) engagements.⁶

We reviewed the only attestation engagement that was completed during the period of review. Deficiency 6 discusses the deficiencies we identified for that one attestation engagement.

Auditors Did Not Use the Current AICPA Standards During an AUP Engagement

GAS 2.09 incorporates by reference the AICPA's Statements on Standards for Attestation Engagements. Further, AT-C 215.05 states that standards for AUP engagements are effective for AUP reports dated on or after May 1, 2017.⁷

Nebraska USPFO IR Division auditors did not use the current AICPA standards when performing AUP engagements. We reviewed "Independent Report of Audit No. 2018-011, Fiscal Year 2018 Nebraska Army National Guard Annual Statement of Assurance," January 31, 2018. During our review, we compared the AT-C 215 requirements to the Nebraska USPFO IR Division's final AUP report and working papers, and concluded that the auditors did not comply with the AICPA standards implemented for AUP reports dated on or after May 1, 2017. Instead, the Nebraska USPFO IR Division used out of date AICPA AUP standards. In addition, the Quality Control Checklist for AUP Attestation Engagements the auditors used during the engagement did not include any references to the May 1, 2017, AICPA AT-C 215 guidance.

Auditors Did Not Properly Agree on the Terms of the Engagement With Management

AT-C 215.12 states that the practitioner should agree upon the terms of the engagement with the engaging party.⁸ The agreed-upon terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement. AT-C 215.14 identifies 12 terms of the engagement that should be included. For the Fiscal Year 2018 Nebraska Army National Guard Annual Statement of Assurance

⁶ An AUP attestation engagement consists of auditors performing specific procedures on a subject matter and issuing a report of findings based on the agreed procedures. In an AUP engagement, the auditor does not express an opinion or conclusion.

⁷ AT-C references the AICPA's Auditing Standards Board Clarity Project. The purpose of the Clarity Project is to make U.S. Government auditing standards easier to read, understand, and apply.

⁸ The practitioner is the Nebraska USPFO IR Division. The Chief of Staff, Nebraska Army National Guard, is referred to as "the engaging party," "responsible party," and "management" within this report.

project, the Nebraska USPFO IR Division's Auditor-in-Charge created a memorandum of understanding (MOU) with the Chief, Nebraska Army National Guard. However, the MOU only included 10 of the 12 agreed-upon terms of the engagement required by AT-C 215.14. Specifically, the MOU did not include:

- disclaimers expected to be included in the practitioner's report (AT-C 215.14h) and
- use restrictions (AT-C 215.14i).⁹

While not addressed in the MOU, the report disclaimers and use restrictions were included in the Nebraska USPFO IR Division's AUP report.

Auditors Did Not Obtain Written Representations From Management

AT-C 215.28, sections a-e, require the practitioner to request from the responsible party written representations in the form of a letter addressed to the practitioner.

The representation letter should:

- state the responsible party's assertion about the subject matter based on the criteria;
- state 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.
- acknowledge management's 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.
- state that it has provided the practitioner with access to all records relevant to the subject matter and the agreed-upon procedures; and
- state that the responsible party has disclosed to the practitioner other matters as the practitioner deems appropriate.

The responsibility for obtaining written representations from the Chief of Staff, Nebraska Army National Guard was a new AICPA requirement. However, the Nebraska USPFO IR Division did not request or receive written representations in the form of a letter from management. Further, the MOU did not include the required information. As a result, the Nebraska USPFO IR Division did not comply with AICPA AUP standards and might have misled management regarding their engagement responsibilities and required disclosures.

⁹ The purpose of the restriction on the use of the practitioner's report for applying agreed-upon procedures is to restrict its use to only those parties that have agreed upon the procedures performed and taken responsibility for the sufficiency of the procedures.

Recommendations Should Not Have Been Included In the AUP Report

GAS 5.65 states that AUP engagements provide neither a high nor moderate level of assurance. As a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAS engagements.

In the AUP report, the Nebraska USPFO IR Division provided three suggestions for the Chief, Nebraska Army National Guard, to consider for improvements for the next fiscal year's Management Internal Control Program. Instead of providing recommendations, the Nebraska USPFO IR Division should have issued a report of findings based upon the agreed-upon procedures. Further, to be compliant with GAS 5.65, the auditor should not communicate additional information such as suggestions in an AUP report.

AICPA-Required Elements Were Not Included in the AUP Report

AT-C 215.35 specifies 17 elements that should be included in an AUP report. However, 3 of the 17 required elements were not included in the Nebraska USPFO IR Division's AUP report.

The first missing report element was AT-C 215.35c. AT-C 215.35c states that the AUP report should include an identification of the subject matter or assertion and the nature of an agreed-upon procedures engagement. However, on two occasions, the Nebraska USPFO IR Division's AUP report incorrectly identified the AUP as a review and audit, when it should have been identified as an AUP. Specifically, the AUP report included the following statements.

- “The Nebraska National Guard Senior Management Committee selected this *review* for inclusion in the FY18 IR Program.”
- “The following summarizes the results of the agreed-upon procedures *audit*.”

Using the word “review” within the report was misleading because the auditors were reporting the results of an AUP. A review is a different type of attestation engagement and provides a moderate level of assurance, while an AUP provides no level of assurance.¹⁰ Further, an AUP engagement is not an audit. Although the error did not affect the findings and conclusions in the final report, usage of the correct terminology is imperative to properly identify the assurance level of the work performed by the auditors.

The second missing report element was AT-C 235.35j.iii. This element states the AUP report should include a statement that the practitioner does not express such an opinion or conclusion. However, the Nebraska USPFO IR Division did not include this statement in the AUP report.

¹⁰ GAS 2.09 identifies the three types of attestation engagements as an examination, review, and AUP.

The final missing report element was AT-C 215.35n. This element provides guidance regarding what the AUP report should include when the engagement is also performed in accordance with GAS. Specifically, AT-C 215.35n states when the engagement is also performed in accordance with GAS, the alert that restricts the use of the report should include the following information.

- A description of the purpose of the report.
- A statement that the report is not suitable for any other purpose than what was agreed upon.

The Nebraska USPFO IR Division performed the AUP engagement in accordance with GAS, but did not include a description of the purpose of the report and a statement that the report is not suitable for any other purpose. Additionally, the AUP report contained information regarding specified parties and report restrictions, which is not required when the engagement is performed in accordance with GAS.

Recommendations, Management Comments, and Our Response

Recommendation 5

We recommend that the Nebraska United States Property and Fiscal Office, Internal Review Division Supervisory Auditor update the Quality Control Checklist for Agreed-Upon Procedures attestation engagements to included references to American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements for Agreed-Upon Procedures Engagements.

National Guard Bureau Comments

The Nebraska USPFO IR Division Supervisory Auditor agreed and stated the Quality Control Checklist for AUP attestation engagements was updated to include references to AICPA Statements on Standards for Attestation Engagements for AUP Engagements. The checklist was updated on October 30, 2018.

Our Response

Comments from the Supervisory Auditor addressed all specifics of the recommendation, and no further comments are required. To verify that the corrective actions were taken, we reviewed the Quality Control Checklist for AUP Engagements. We found that the Checklist was updated to included references to AICPA Statements on Standards for Attestation Engagements for AUP Engagements. As such, the recommendation is closed.

Recommendation 6

We recommend that the Nebraska United States Property and Fiscal Office, Internal Review Division Supervisory Auditor require the audit staff to obtain training on the current *Government Auditing Standards* and American Institute of Certified Public Accountant Statements on Standards for Attestation Engagements for Agreed-Upon Procedures Engagements.

National Guard Bureau Comments

The Nebraska USPFO IR Division Supervisory Auditor agreed and stated that the audit staff will not conduct AUP Engagements until the audit staff is trained on the current GAS and AICPA Statements on Standards for Attestation Engagements for AUP Engagements.

Our Response

Comments from the Supervisory Auditor addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved but will remain open. The supervisor's decision to not conduct AUP Engagements until the audit staff is trained on the current GAS is adequate. The recommendation will remain open until we verify that the Nebraska USPFO, IR Division audit staff obtained training on the current GAS and AICPCA Statements on Standards for Attestation Engagements for AUP Engagements.

Deficiency 7. Auditors Did Not Document the Consideration of Management's Ability to Effectively Oversee Nonaudit Services Provided

GAS 3.59c states that auditors are required to document their consideration of the audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor. This requirement is part of the documentation requirements under the GAS independence standard.

Nonaudit services are professional services other than audits or attestation engagements. Therefore, auditors do not report that the nonaudit services were conducted in accordance with GAS. In addition, GAS 3.34 states that the auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them.

Of the 47 nonaudit services performed at the four USPFO IR Divisions during the period of review, we reviewed a sample of 10. For the 10 nonaudit services that were reviewed, auditors did not document their consideration of the ability of the audited entity's management to effectively oversee the nonaudit service provided by the auditor.

At the time the nonaudit services were performed, NGB IR did not have policies and procedures in place for documenting the consideration of the ability of the audited entity's management to effectively oversee a nonaudit service. NGB IR did not implement the NGB IR policy, "Independence Impairment Assessment When Planning to Perform Nonaudit Engagements," until December 20, 2017. The policy states that nonaudit service documentation must include information regarding the individual who has been designated by the audited entity to oversee the nonaudit service.

Without documenting the consideration of management's ability to effectively oversee nonaudit services, there is no evidence of the auditor's judgments in forming conclusions regarding compliance with GAS independence requirements. While 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.

Corrective Action Taken

As a result of this peer review, in July and August 2018, two of the four USPFO IR Divisions took steps to address this deficiency related to auditors not documenting their consideration of the ability of the audited entity's management to effectively oversee nonaudit services. Specifically, the South Carolina USPFO IR Division added a step to its independence determination template to document and consider the ability of the audited entity's management to effectively oversee the nonaudit service to be provided. In addition, the South Carolina USPFO IR Division added this consideration to the standard MOU for nonaudit services provided. The Michigan USPFO IR Division adjusted its template MOU to ensure that this issue is adequately addressed in the future.

Recommendation, Management Comments, and Our Response

Recommendation 7

We recommend that the National Guard Bureau Internal Review Office Director review a sample of nonaudit services provided after December 20, 2017, to determine whether auditors documented and considered the ability of the audited entity's management to effectively oversee the nonaudit service provided as required by *Government Auditing Standards*.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that the NGB IR will sample nonaudit services to determine whether auditors documented and considered the ability of the audited entity's management to effectively oversee the nonaudit service. This action will be completed by June 28, 2019.

Our Response

Comments from the NGB IR Office Director addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR sampled nonaudit services to determine whether auditors documented and considered the ability of the audited entity's management to effectively oversee the nonaudit service provided.

As is customary, we have issued a letter of comment dated February 7, 2019 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report. If you have any questions or would like to meet to discuss the report, please contact Carolyn R. Hantz at (703) 604-8877 or at Carolyn.Hantz@dodig.mil. We appreciate the cooperation and assistance received during the peer review.



Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Enclosure

Scope and Methodology

We conducted this peer review from February through November 2018 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*. We tested compliance with the NGB IR Office system of quality control to the extent we considered appropriate. These tests included a review of 2 of 15 performance audits conducted by the NGB IR Office and 7 of 51 audits and 1 of 1 attestation engagements conducted at 4 USPFO IR Divisions during the period of January 1, 2016 through February 28, 2018. Table 2 lists the audit projects reviewed and the NGB IR office that conducted the audit.

In addition, we tested *Government Auditing Standards* and NGB IR policy compliance for nonaudit services performed during the period of January 1, 2016 through February 28, 2018. We reviewed 1 of 5 nonaudit services performed at NGB IR and 10 of 47 performed at the USPFO IR Divisions. Table 3 lists the nonaudit services reviewed.

We also reviewed continuing professional education documentation for the NGB IR audit staff to determine compliance with *Government Auditing Standards*.

We reviewed the final report for the internal quality control review performed for the NGB IR Office to determine if NGB IR was monitoring the quality of audit work performed. Table 4 lists the internal quality control review report that was reviewed. Table 5 lists the audit projects we reviewed that were included in the internal quality control review of the Georgia USPFO IR Division, which NGB IR conducted in December 2017. Additionally, we interviewed personnel at NGB IR and 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 Office located in Arlington, Virginia, and USPFO IR Divisions in Aurora, Colorado; Columbia, South Carolina; Lansing, Michigan; and Lincoln, Nebraska.

Table 2. NGB IR Audits Reviewed

Audit Title	Date Announced	Report Number and Issuance Date	Type of Review/NGB IR Office
Follow-Up Audit of the Alaska National Guard Management of Federal Resources Internal Review	July 13, 2016	2016-007 January 23, 2018	Performance/NGB IR
Audit of the National Maintenance Program Pennsylvania Army National Guard	July 20, 2016	2016-008, March 22, 2018	Performance/NGB IR
Government Purchase Card (GPC) Convenience Checks Annual Review	March 14, 2017	2017-012, June 2, 2017	Performance/Colorado
Audit of 140th Wing Use of Nonappropriated Funds	November 2, 2017	2017-037, February 15, 2018	Performance/Colorado
Audit of Camp Grayling Billeting Fund	December 2, 2013	2014-009, February 9, 2016	Performance/Michigan
Audit of GPC Program	May 2, 2017	2017-029 January 2, 2018	Performance/Michigan
Independent Report of Audit No. 2018-011, Fiscal Year 2018 Nebraska Army National Guard Annual Statement of Assurance	December 29, 2017	2018-011 January 31, 2018	Agreed-Upon Procedures Attestation Engagement/Nebraska
Army National Guard Incentives	July 11, 2017	2017-015, July 11, 2017	Performance/Nebraska
Qualified Recycling Program Audit	September 23, 2015	2016-027, April 11, 2017	Performance/South Carolina
Appendix 7 Sustainable Ranges	April 19, 2016	2016-13 September 13, 2016	Performance/South Carolina

Table 3. NGB IR Nonaudit Services Reviewed

Project Number and Title	Report Date	NGB IR Office
2017-008, "Consulting Review of Sports Marketing and Advertising Contracts"	December 22, 2017	NGB IR
2016 Annual Statement of Assurance Consult	July 14, 2016	Colorado
2017 Annual Statement of Assurance Consult	May 11, 2016	Colorado
2016-014, "First Army Inspector General Corrective Action"	September 22, 2016	Michigan
2017-005, "Procurement Management Corrective Action Plan"	January 23, 2018	Michigan
2017-033, "Michigan Army National Guard DoD Financial Management Certification Program"	September 29, 2017	Michigan
2017-039, "Journal Vouchers"	January 30, 2018	Nebraska
2017-024, "Marathon Fiscal Guidance"	April 25, 2017	Nebraska
2017-021, "133rd MP Company Sensitive Item Review"	January 24, 2018	South Carolina
2015-036, "Bennettsville Amory Latrine Repair Project"	February 16, 2016	South Carolina
2017-014, "New Museum Director-Required Inventory"	October 12, 2017	South Carolina

Table 4. Internal Quality Control Report Reviewed

Report Title	Report Number	Issuance Date
Quality Control Review of the National Guard Bureau Internal Review	QCR Final Report No. 2017Q021	March 8, 2018

Table 5. Georgia USPFO IR Audits Reviewed by the NGB IR Peer Review Team

Audit Title	Report Number and Issuance Date	Audit Type
Internal Review of Federal Tuition	2014-060, March 28, 2016	Performance
Internal Review of Georgia Garrison Training Center Billeting Fund	2016-030, February 6, 2017	Performance



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

February 7, 2019

MEMORANDUM FOR CHIEF, NATIONAL GUARD BUREAU

SUBJECT: Letter of Comment for the National Guard Bureau Internal Review Office
(Report No. DODIG-2019-052)

We have reviewed the system of quality control for the National Guard Bureau Internal Review (NGB IR) Office in effect for the period ended February 28, 2018, and have issued our final report on February 7, 2019, 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. Audit Plan Did Not Discuss Sampling as Part of the Methodology

GAS 6.51 states that auditors must prepare a written audit plan for each audit. The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.

For Report No. 2016-008, "The Audit of the National Maintenance Program," March 22, 2018, the audit plan did not discuss the auditor's usage of a sample to help address the audit objectives. However, during the audit, the auditors used a sample of 134 work orders to determine whether the work orders were billed appropriately. By not including the sample information in the audit plan, documentation of key decisions about the audit's objectives, scope, and methodology and the auditors' basis for those decisions was incomplete.

Further, during the project, NGB IR did not have policies and procedures in place regarding the information that should be included in the audit plan. The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. However, the auditors used a planning checklist to determine whether the contents of the audit plan were adequate. The checklist did not include a step to verify that sampling methodologies were included in the audit plan.

Recommendation, Management Comments, and Our Response

Recommendation 8

We recommend that the National Guard Bureau Internal Review Office Director revise the planning checklist to include a step to verify the audit plan's contents include sampling methodologies.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated a step will be added to the planning checklist to verify the audit plan's contents. This action will be completed by May 31, 2019.

Our Response

Comments from the NGB IR Office Director addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR's planning checklist was revised to include a step to verify the audit plan's contents include sampling methodologies.

Finding 2. Auditors Did Not Document Their Understanding of an Ongoing Investigation That was Significant in the Context of the Audit Objectives

GAS 6.06 states that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. In addition, as part of planning an audit, GAS 6.11e states that auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of ongoing investigations or legal proceedings within the context of the audit objectives.

The Audit of the National Maintenance Program was requested in part because of an ongoing investigation, and the auditors did not document their understanding of the investigation. Specifically, in July 2016, NGB IR issued an audit report, which discussed the discovery of potential fraud, waste, and mismanagement at a maintenance site. As a direct result of the audit, an investigation ensued, and there was a request for NGB IR to perform separate audits at three additional National Guard locations, including the site for the project we reviewed.

During a conversation with the auditors from the NGB IR Office, the auditors stated they gained an understanding of the ongoing investigation and that the documentation showing evidence of this was included in the project file. However, after reviewing the documentation,

we determined the documentation discussed the results of previous audits that directly related to the audit objectives. This documentation provided evidence that the auditors complied with GAS 6.11f which states auditors should gain an understanding of the results of previous audits that directly relate to the current audit objectives.

Overall, the planning documentation for the audit was adequate. However, by not documenting their understanding of the ongoing investigation, there is no evidence the auditors fully assessed the extent of the investigation and audit risk.

During the audit, NGB IR did not have policies and procedures for assessing audit risk and the areas where the auditors should gain an understanding. The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. While there is guidance for assessing audit risk in the current version of the Handbook, dated January 1, 2018, it does not include guidance for the auditors to gain an understanding of ongoing investigations or legal proceedings within the context of the audit objectives.

Recommendation, Management Comments, and Our Response

Recommendation 9

We recommend that the National Guard Bureau Internal Review Office Director develop and implement policies and procedures for documenting audit risk that includes auditors gaining an understanding of ongoing investigations or legal proceedings that are significant within the context of the audit objectives.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that policies and procedures for documenting audit risk to include gaining an understanding of ongoing investigations or legal proceedings will be developed and implemented. This action will be completed by June 28, 2019.

Our Response

Comments from the NGB IR Office Director addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR developed and implemented policies and procedures for documenting audit risk that includes auditors gaining an understanding of ongoing investigations or legal proceedings that are significant within the context of the audit objectives.

Finding 3. Auditor Did Not Meet GAS Continuing Professional Education Requirements

GAS 3.76 states that 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 of 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

In addition, *GAS Guidance on GAGAS* [Generally Accepted Government Auditing Standards] *Requirements for Continuing Professional Education*, GAO-05-568G, April 2005, states that at their discretion, audit organizations may give auditors who have not completed the required number of CPE hours for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency.

We determined that one of the 10 auditors at NGB IR did not meet the GAS CPE requirements during the most recent completed 2-year period of January 1, 2016 through December 31, 2017. Specifically, the audit staff member was deficient 52.5 hours of the 80 hour CPE requirement.

- The auditor did not complete any CPEs during the first year of the 2-year period (January 1 through December 31, 2016).
- The auditor completed 27.5 CPEs during the second year of the 2-year period (January 1 through December 31, 2017) and met the requirement for at least 24 hours of government auditing.
- The auditor completed at least 20 hours of CPE during the second year of the 2-year period (January 1 through December 31, 2017); this complied with GAS.

Even though auditors are allowed a 2-month grace period to complete their CPE requirements, the audit staff member was not able to meet the 80 hour CPE requirement within the timeframe of January through February 2018. The audit staff member did not meet the CPE requirements until March 7, 2018.

NGB IR did not discover the audit staff member's CPE deficiency until an internal quality control review in December 2017. As a result of the discovery, the Director of Internal Review notified the audit staff member of the CPE deficiency in a memorandum dated February 2, 2018, which left the staff member with 1 month to satisfy the CPE requirements.

In the memorandum, the audit staff member was informed that he would not be allowed to participate in GAS audits or attestation engagements until the CPE requirements were met. This course of action complied with the Government Accountability Office's guidance and NGB IR Policy Memorandum, "Auditor Training Requirements," December 12, 2017.

Based on the previous external peer review of the NGB IR Office, NGB IR stated that it would implement an official training program to ensure that all auditors maintain adequate CPEs.¹¹ This would be automated and monitored within its audit system, with full compliance by January 31, 2016. However, we determined that the policy for monitoring and tracking training was not implemented until January 2018.

On January 9, 2018, NGB IR issued a policy entitled, "Standard Operating Procedures," that includes the following guidance.

We have developed and implemented a CPE tracking tool for NGB IR auditors to use. NGB-IR utilizes a calendar year training schedule. All auditors will maintain their professional competence and ensure that they are meeting their CPE 20 and CPE 80 milestones. Every auditor should update and track their CPE's on a quarterly basis. Supervisors are required to track each auditor's compliance with this standard.

This tracker will be utilized to perform semi-annual assessment of auditors' compliance with GAS 3.76. Make recommendations semi-annually on available classes for auditors who are lacking required CPE hours.

While CPE deficiency is a repeat finding from the previous external peer review of the NGB IR Office, the number of NGB IR audit staff members deficient in CPE hours has decreased. The previous peer review identified three of eight auditors who did not meet the CPE requirements.

Recommendation, Management Comments, and Our Response

Recommendation 10

We recommend that the National Guard Bureau Internal Review Office Director require Supervisory Auditors to track each auditor's continuing professional education compliance on a semiannual basis.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that supervisory auditors will be required to track each auditor's continuing professional education compliance on a semiannual basis. This action will be completed by March 29, 2019.

¹¹ Report No. DODIG-2016-035, "External Peer Review Report on the National Guard Bureau Internal Review Office," December 18, 2015.

Our Response

Comments from the NGB IR Office Director addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that supervisory auditors are required to track each auditor's continuing professional education compliance on a semiannual basis.

NGB United States Property and Fiscal Office, Internal Review Divisions

Finding 4. Audit Documentation Prepared By a Supervisory Auditor Was Not Reviewed

GAS 6.83 states that auditors should document supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report. Also, GAS 3.83 states that the nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit organization's size.

For Report No. 2017-037, "The Audit of 140th Wing Use of Non-Appropriated Funds," February 15, 2018, conducted by the Colorado USPFO IR Division, the audit supervisor was the only staff member assigned to the project, and there was no evidence that any of the working papers and supporting documentation in the project file were reviewed. This included working papers that supported the findings, conclusions, and recommendations contained in the audit report.

The supervisory auditor performed the audit work due to the size of the Internal Review Division. There were four audit staff members, including the supervisory auditor, within the Colorado USPFO IR Division during the time the audit was conducted. Also, during the audit, the Colorado USPFO IR Division did not have procedures in place where another auditor reviews the audit work completed by a supervisory auditor.

Even though we did not identify any issues regarding the audit documentation, the supervisor could have had another experienced audit staff member review the working papers and supporting documentation to verify the standards for audit documentation were met. In addition, the supervisor could have documented the reasons as to why the non-supervisory auditor reviewed the audit work. The documentation would have provided evidence that the auditors took steps to ensure the audit documentation was sufficient and reviewed.

Recommendation, Management Comments, and Our Response

Recommendation 11

We recommend that the National Guard Bureau Internal Review Office Director establish a process where another auditor reviews the audit work completed by a supervisory auditor that supports the findings, conclusions, and recommendations contained in the audit report.

National Guard Bureau Comments

The NGB IR Office Director agreed and stated that policies will be established to ensure another auditor reviews the audit work completed by a supervisory auditor. Policy will be established by June 28, 2019.

Our Response

Comments from the NGB IR Office Director addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the NGB IR established a policy that specifies a process where another auditor reviews the audit work completed by a supervisory auditor that supports the findings, conclusions, and recommendations contained in the audit report.

Finding 5. Auditors Did Not Document Methodologies Used During the Assessment of the Audit Evidence

GAS 6.83a states that auditors should document the methodology they used during audit. GAS defines methodology as the description of the procedures performed as part of its assessment of the sufficiency and appropriateness of audit evidence.

For the Audit of 140th Wing Use of Non-Appropriated Funds, conducted by the Colorado USPFO IR Division, all five of the summary working papers did not contain an adequate methodology to describe the evidence-gathering and analytical techniques the auditors used during their assessment of the audit evidence.

When discussing the methodology in the summary working papers, the auditors stated that they reviewed documentation, such as Standard Operating Procedures and forms. The auditors did not identify the analytical techniques they used during their assessment of the audit evidence. Due to the lack of information in the working papers, verbal explanations were necessary for the peer review team to understand the work performed.

NGB IR did not have policies and procedures in place for documenting methodologies used by the auditors to assess audit evidence. The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. However, the draft version of the Handbook

was available online for the audit staff to refer to when performing audits. The Handbook states work papers should explain the methodology used to conduct analysis and identify all assumptions made.

NGB IR finalized and implemented the Handbook; therefore, we are making no recommendations for this finding.

Finding 6. Audit Report Did Not Discuss Sample Design Chosen

GAS 7.13 states that in reporting audit methodology, when sampling significantly supports the auditors' findings, conclusions, or recommendations, auditors should describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

Michigan USPF0 IR Division's Report No. 2014-009, "The Audit of Camp Grayling Billeting Fund," February 9, 2016, did not discuss a refund transaction universe and the sample design used during the audit, including whether the results could be projected to the intended population. The auditors sampled 16 refund transactions and did not explain the relationship between the population and the items tested.

NGB IR did not have policies and procedures in place for reporting sampling methods used during audits. The NGB IR Audit Documentation and Reporting Handbook was not issued until January 2018. However, the draft version of the Handbook was available online for the audit staff to refer to when preparing audit reports. The Handbook states that reports should include the methodology used for the audit, including sampling methods.

NGB IR finalized and implemented the Handbook; therefore, we are making no recommendations for this finding.

Finding 7. Quality Control Procedures Were Not Always Performed

GAS 3.84 states that the audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. While referencing audit reports is not required by GAS, GAS A7.02a offers supplemental guidance stating that one way to help audit organizations prepare accurate audit reports is to use a quality control process such as the independent reference review process. The independent reference review process is a process in which an experienced auditor who is independent of the audit checks that statements of facts, figures, and dates are correctly reported, that the findings are adequately supported by the evidence in the audit documentation, and that the conclusions and recommendations flow logically from the evidence.

For three of the projects reviewed, auditors did not always perform quality control procedures that were developed to help ensure auditors were following applicable auditing standards.

Specifically, for the Audit of 140th Wing Use of Non-Appropriated Funds and GPC Convenience Checks Annual Review, both conducted by the Colorado USPFO IR Division, the project files contained quality control documents, such as planning and reporting checklists. However, these quality control documents were not completed by the audit staff.

The Colorado USPFO IR Division's Standard Operating Procedures, dated December 3, 2015, did not include guidance regarding the completion of the quality control checklists.

Additionally, for the Audit of the CG Billeting Fund, conducted by the Michigan USPFO IR Division, the auditors did not fully complete the report referencing process. The audit report contained two findings. However, only one of the findings was cross-referenced to the supporting documentation. Even though the second finding was not cross-referenced, we determined that the findings were adequately supported by the evidence in the audit documentation.

The Michigan USPFO IR Division's Standard Operating Procedures, dated September 24, 2015, state that draft reports should be cross-referenced to supporting documents, objective summaries, the program summary, and the audit program.

Recommendations, Management Comments, and Our Response

Recommendation 12

We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement guidance for completing quality control checklists.

National Guard Bureau Comments

The Colorado USPFO IR Division Supervisory Auditor agreed and stated she is currently in the process of developing guidance for completing quality control checklists. She expects full implementation of guidance in the first quarter of 2019.

Our Response

Comments from the Supervisory Auditor addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the Colorado USPFO IR Division Supervisory Auditor developed and implemented guidance for completing quality control checklists.

Recommendation 13

We recommend that the Michigan United States Property and Fiscal Office, Internal Review Division Supervisory Auditor create a Cross-Referencing Checklist to ensure that audit reports are cross-referenced to the supporting documentation.

National Guard Bureau Comments

The Michigan USPFO IR Division Supervisory Auditor agreed and stated the existing report checklist template has been updated to include a more detailed section related to the cross-referencing of reports to supporting documentation. This action was completed on December 12, 2018.

Our Response

Comments from the Supervisory Auditor addressed all specifics of the recommendation, and no further comments are required. To verify that the corrective actions were taken, we reviewed the Draft Report Quality Assurance Checklist report checklist template. We found that the template was updated to include a more detailed section related to the cross-referencing of reports to supporting documentation. As such, the recommendation is closed.

Finding 8. Auditors Did Not Develop Policies and Procedures for the Safe Custody and Retention of Audit Documentation

GAS 3.92 states that when performing GAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation.

The Colorado USPFO IR Division did not develop adequate procedures for the safe custody and retention of audit documentation. The auditors maintained working papers and reports on a network shared drive that could be accessed by anyone in the office. In addition, the drive was not password protected. While there was no evidence that any working papers were altered or edited after the final report was issued, without adequate procedures, there is the risk of working papers being altered or edited without detection by anyone who had access to the drive.

The audit project files for the Colorado USPFO IR Division did not contain complete documentation. The supervisory auditor responsible for completing the projects was no longer working at the USPFO IR Office at the time of our review. The current audit staff acknowledged the documentation should have been in the project files and could not provide a reason as to why the documentation was not in the file. Examples of missing documentation included quality control documents such as the:

- review of audit plan: auditors certify the audit plan complies with NGB IR guidance and GAS, and that the plan provides adequate coverage of the audited area,
- review of working papers: auditors certify that all working papers related to the audit have been reviewed and that conclusions were supported by sufficient, competent, and relevant evidence, and
- cross-reference checklist: auditors validate compliance with their referencing system.

Recommendation, Management Comments, and Our Response

Recommendation 14

We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement policies and procedures for the safe custody and retention of audit documentation.

National Guard Bureau Comments

The Colorado USPFO IR Division Supervisory Auditor agreed and stated that policies and procedures will be developed for the safe custody and retention of audit documentation with the assistance of Data Processing Installation. Full implementation of safe custody and retention of audit documentation policies and procedures is projected for the first quarter of 2019.

Our Response

Comments from the Supervisory Auditor addressed all specifics of the recommendation, and no further comments are required. Therefore, the recommendation is resolved, but remains open. We will close the recommendation once we verify that the Colorado USPFO IR Division developed and implemented policies and procedures for the safe custody and retention of audit documentation.

If you have any questions or would like to meet to discuss the report, please contact Carolyn R. Hantz at (703) 604-8877 or at Carolyn.Hantz@dodig.mil. We appreciate the cooperation and assistance received during the peer review.

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

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

Management Comments

Consolidated NGB IR and USPFO IR Division Comments



NATIONAL GUARD BUREAU
1638 DEFENSE PENTAGON
WASHINGTON DC 20301-1638

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL, POLICY AND OVERSIGHT

Subject: Comments to "External Peer Review of the National Guard Bureau-Internal Review Office," dated 4 December 2015

1. Since, DoD-IG's last peer review report in 2016, the National Guard Bureau, Internal Review office has made strides to improve our audit processes and products. We welcome the recommendations in that report combined with the current recommendations and report which will assist our entire NGB audit community to improve our overall audit processes and product. To that end, my comments and actions address the recommendations identified in your report.

Recommendation # 1 - We recommend that the National Guard Bureau Internal Review Office Director verify that monitoring efforts are being performed or have started for fiscal year 2018 and provide the DoD OIG a copy of the associated quality control review report by June 2019.

Concur. As your report states, NGB-IR conducted an internal quality control review (QCR) of its operations and published the report related to this QCR in March 2018. We will conduct another internal QCR in 2019 and provide the results of this effort to DoD-IG by 28 June 2019.

Recommendation #2 - We recommend that the National Guard Bureau Internal Review Office Director develop and implement policies and procedures for annotating supporting working paper documentation to show its significance to the summary working paper.

Concur. The Director, NGB-IR will develop and implement policies for annotating supporting working paper documentation to show significance to the summary working paper. This policy will be implemented by 28 June 2019.

Recommendation #3 - We recommend that the National Guard Bureau Internal Review Office Director:

- a. Evaluate the adequacy of supervisory reviews on a sample of audits completed after January 1, 2018 and document the evaluation in writing.
- b. Remind supervisors, in writing, the importance of complying with Govt Audit Standards.

Concur. The Director, NGB-IR will evaluate and document the adequacy of supervisory reviews, while also reminding supervisors of the importance of documenting these reviews. Both actions will be complete by 14 June 2019.

Consolidated NGB IR and USPFO IR Division Comments (cont'd)

Recommendation #4 - We recommend that the Michigan United States Property and Fiscal Office Internal Review Division Supervisory Auditor require the audit staff to obtain training on Government Auditing Standards, including how to develop the elements of a finding.

NGB-IR Response - Concur. The Michigan IR Supervisory Auditor will require the audit staff to obtain training on Government Auditing Standards, including how to develop the elements of a finding. Among other classes planned during FY 19, Michigan Auditors will attend Graduate School USA's "Developing Audit Findings and Recommendations" course in February 2019.

Recommendation #5 - We recommend that the Nebraska United States Property and Fiscal Office, Internal Review Division Supervisory Auditor update the Quality Control Checklist for Agreed-Upon Procedures attestation engagements to included references to American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements for Agreed-Upon Procedures Engagements.

NGB-IR Response - Concur. The IR Supervisory Auditor updated the Quality Control Checklist for AUP attestation engagements and included references to AICPA Statements of Standards for Attestation Engagement for AUP Engagements. Recommendation completed on 30 October 2018.

Recommendation #6 - We recommend that the Nebraska United States Property and Fiscal Office, Internal Review Division Supervisory Auditor require the audit staff to obtain training on the current Government Auditing Standards and American Institute of Certified Public Accountant Statements on Standards for Attestation Engagements for Agreed-Upon Procedures Engagements.

NGB-IR Response – Concur. The IR Supervisory Auditor will not conduct AUP Engagements until audit staff have been trained on the current Government Auditing Standards and AICPA Statements on Standards for Attestation Engagements for AUP Engagements. Recommendation completed on 30 October 2018.

Recommendation #7 - We recommend that the National Guard Bureau Internal Review Office Director review a sample of nonaudit services provided after December 20, 2017, to determine whether auditors documented and considered the ability of the audited entity's management to effectively oversee the nonaudit service provided as required by Government Auditing Standards.

NGB-IR Response – Concur. NGB-IR will sample non-audit services to determine if auditors documented and considered the ability of the audited entity's management to effectively oversee the non-audit service. This action will be completed by 28 June 2019.

Consolidated NGB IR and USPFO IR Division Comments (cont'd)

The following responses address the recommendations presented in DoD-IG's letter of comment.

Recommendation #8 - We recommend that the National Guard Bureau Internal Review Office Director revise the planning checklist to include a step to verify the audit plan's contents include sampling methodologies.

NGB-IR Response – Concur. The NGB-IR Director will add a step to the audit planning checklist that will verify the audit plans contents. This action will be complete by 31 May 2019.

Recommendation #9 - We recommend that the National Guard Bureau Internal Review Office Director develop and implement policies and procedures for documenting audit risk that includes auditors gaining an understanding of ongoing investigations or legal proceedings that are significant within the context of the audit objectives.

NGB-IR Response – Concur. The NGB-IR Director will develop and implement policies to document audit risk, to include gaining an understanding of any ongoing investigations. Policy will be developed by 28 June 2019.

Recommendation #10 - We recommend that the National Guard Bureau Internal Review Office Director require Supervisory Auditors to track each auditor's continuing professional education compliance on a semiannual basis.

NGB-IR Response – Concur. The NGB-IR Director will require supervisory auditors to track CPE's on a semi-annual basis. Action will be completed by 29 March 2019.

Recommendation #11 - We recommend that the National Guard Bureau Internal Review Office Director establish a process where another auditor reviews the audit work completed by a supervisory auditor that supports the findings, conclusions, and recommendations contained in the audit report.

NGB-IR Response – Concur. The NGB-IR Director will establish policies to ensure that another auditor reviews the work completed by a supervisory auditor. Policy will be established by 28 June 2019.

Recommendation #12 - We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement guidance for completing quality control checklists.

NGB-IR Response – Concur. The Internal Review Supervisory Auditor is currently in the process of developing guidance for completing quality control checklists with full implementation of guidance scheduled for the 1st quarter of 2019.

Recommendation #13 - We recommend that the Michigan United States Property and Fiscal Office, Internal Review Division Supervisory Auditor create a Cross-Referencing Checklist to ensure that audit reports are cross-referenced to the supporting documentation.

NGB-IR Response – Concur. The Michigan IR Supervisory Auditor updated the existing report checklist template to include a more detailed section related to the cross-referencing of reports to supporting documentation. Completed 12 Dec 2018.

Consolidated NGB IR and USPFO IR Division Comments (cont'd)

Recommendation #14 - We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement policies and procedures for the safe custody and retention of audit documentation.

NGB-IR Response – Concur. The Internal Review Supervisory Auditor will develop policies and procedures for the safe custody and retention of audit documentation with the assistance of DPI. Full implementation of safe custody and retention of audit documentation policies and procedures projected for the 1st quarter of 2019.

2. I would like to thank the DoD-IG team for conducting a professional and thorough peer review. This is a consolidated NGB response, I have included the separate responses from each of the State IR offices. I will serve as the point of contact for this memorandum and I can be contacted at [REDACTED] or telephonically at [REDACTED]



Derrick E. Miller, CPA
Director, NGB-IR

Michigan USPFO IR Division Comments



NATIONAL GUARD BUREAU
UNITED STATES PROPERTY AND FISCAL OFFICE
3423 N. MARTIN LUTHER KING JR. BLVD
LANSING MI 48906-2934

NGMI-PFO-IRA (11-7)

13 December 2018

MEMORANDUM FOR National Guard Bureau, Director of Internal Review (NGB-IR), 111 South George Mason Drive, Arlington, VA 22204-1373

SUBJECT: Comments to Department of Defense Inspector General Report: System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office (Project No. D2018-DAPOIA-0105.000)

1. Reference Draft Report, DoD IG, December 4, 2018, subject: System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office (Project No. D2018-DAPOIA-0105.000).

2. The Michigan Internal Review (IR) Division continually strives to improve processes. We welcomed the DoD Inspector General's (IG) feedback and immediately began implementing corrective actions. My comments and the actions of the Michigan IR Supervisory Auditor address the recommendations identified in the DoD IG's draft report:

a. Recommendation 4 - We recommend that the Michigan United States Property and Fiscal Office (USPFO) IR Division Supervisory Auditor require the audit staff to obtain training on Government Auditing Standards, including how to develop the elements of a finding.

Comments: Concur. The Michigan IR Supervisory Auditor will require the audit staff to obtain training on Government Auditing Standards, including how to develop the elements of a finding. Among other classes planned during FY19, Michigan Auditors will attend Graduate School USA's "Developing Audit Findings and Recommendations" course in February 2019.

b. Recommendation 13 - We recommend that the Michigan USPFO IR Division Supervisory Auditor create a Cross-Referencing Checklist to ensure that audit reports are cross-referenced to the supporting documentation.

Comments: Concur. The Michigan IR Supervisory Auditor updated the existing report checklist template to include a more detailed section related to the cross-referencing of reports to supporting documentation. Completed 12 December 2018.

3. The point of contact for this memorandum is [REDACTED].

WARD,STEPHEN,JA
MES [REDACTED]
COL STEPHEN J. WARD
COL, NGB
USPFO for Michigan

Colorado USPFO IR Division Comments



NATIONAL GUARD BUREAU

UNITED STATES PROPERTY AND FISCAL OFFICE FOR COLORADO
660 South Aspen Street, MS 66, Buckley Air Force Base, Aurora, CO 80011-9551

USPFO-CO

13 December 2018

MEMORANDUM FOR National Guard Bureau, Director of Internal Review (NGB-IR), 111 South George Mason Drive, Arlington, VA 22204-1373

SUBJECT: Comments to Department of Defense Inspector General Report: System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office (Project No. D2018-DAPOIA-0105.000)

1. Reference Draft Report, DoD IG, December 4, 2018, subject: System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office (Project No. D2018-DAPOIA-0105.000). The Colorado Internal Review (IR) Division continually strives to improve processes. We welcomed the DoD Inspector General's (IG) feedback and are taking immediate corrective actions. My comments and actions address the recommendations identified in the DoD IG's draft report.

a. Recommendation 12 – We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement guidance for completing quality control checklists.

Concur. The Internal Review Supervisory Auditor is currently in the process of developing guidance for completing quality control checklists with full implementation of guidance scheduled for 1st quarter 2019.

b. Recommendation 14 – We recommend that the Colorado United States Property and Fiscal Office, Internal Review Division Supervisory Auditor develop and implement policies and procedures for the safe custody and retention of audit documentation.

Concur. The Internal Review Supervisory Auditor will develop policies and procedures for the safe custody and retention of audit documentation with the assistance of DPI. Full implementation of safe custody and retention of audit documentation policies and procedures projected for 1st quarter 2019.

2. The point of contact for this memorandum is [REDACTED].

JONES, CRAIG, WIL [REDACTED]
LIAM [REDACTED]
CRAIG W. JONES
COL, NGB
USPFO for Colorado

Nebraska USPFO IR Division Comments



NATIONAL GUARD BUREAU

OFFICE OF THE UNITED STATES PROPERTY AND FISCAL OFFICER, NEBRASKA
JOINT FORCE HEADQUARTERS 2433 NORTHWEST 24TH STREET
LINCOLN NE 68524-1801

USPFO-NE-IR

17 December 2018

MEMORANDUM FOR National Guard Bureau, Director of Internal Review (NGB-IR),
111 South George Mason Drive, Arlington, VA 22204-1373

SUBJECT: Comments to Department of Defense Inspector General Report: System
Review Report for the External Peer Review of the National Guard Bureau Internal
Review Office (Project No. D2018-DAPOIA-0105.000)

1. Reference Draft Report, DoD IG, December 4, 2018, subject: System Review
Report for the External Peer Review of the National Guard Bureau Internal Review
Office (Project No. D2018-DAPOIA-0105.000). The Nebraska Internal Review (IR)
Division continually strives to improve processes. We welcomed the DoD Inspector
General's (IG) feedback and took immediate corrective actions. My comments and
actions address the recommendations identified in the DoD IG's draft report.

a. Recommendation 5 – The Nebraska United States Property and Fiscal Office, IR
Division Supervisory Auditor, update the Quality Control Checklist for Agreed-Upon
Procedures (AUP) attestation engagements to include references to American Institute
of Certified Public Accountants (AICPA) Statements on Standards for Attestation
Engagements for AUP Engagements.

Concur. The IR Supervisory Auditor updated the Quality Control Checklist for AUP
attestation engagements and included references to AICPA Statements on Standards
for Attestation Engagement for AUP Engagements. Recommendation completed on 30
October 2018.

b. Recommendation 6 – The Nebraska United States Property and Fiscal Office, IR
Division Supervisory Auditor, require the audit staff to obtain training on the current
Government Auditing Standards and AICPA Statements on Standards for Attestation
Engagements for AUP Engagements.

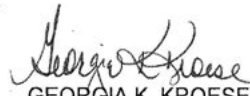
Concur. The IR Supervisory Auditor will not conduct AUP Engagements until audit staff
have been trained on the current Government Auditing Standards and AICPA
Statements on Standards for Attestation Engagements for AUP Engagements.
Recommendation completed on 30 October 2018.

Nebraska USPFO IR Division Comments (cont'd)

USPFO-NE-IR

SUBJECT: Comments to Department of Defense Inspector General Report: System Review Report for the External Peer Review of the National Guard Bureau Internal Review Office (Project No. D2018-DAPOIA-0105.000)

2. The point of contact for this memorandum is [REDACTED]



GEORGIA K. KROESE
COL, NGB
USPFO for Nebraska

Encl
AUP Attestation Quality Control Checklist

CF:
IR

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____				
		Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
GENERAL STANDARDS						
(1) Independence						
(Threats to Independence) Yellow Book Paragraph 3.14	Were auditors free from the following threats to independence (Independence in Mind & Appearance)? Ensure an independence threat assessment was completed for each auditor who conducted work (work papers) toward the accomplishment of the procedures.					
Safeguards to eliminate or reduce threats to independence to an acceptable level. Yellow Book Paragraph 3.16-3.17	If any of the below threats to independence existed, did the IR office designed safeguards to eliminate or reduce threats to independence to an acceptable level? Examples of safeguards are: <input type="checkbox"/> consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor; <input type="checkbox"/> involving another audit organization to perform or re-perform part of the audit; <input type="checkbox"/> having a professional staff member who was not a member of the audit team review the work performed; and <input type="checkbox"/> removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence.					
(2) Professional Judgment						
Yellow Book Paragraph 3.60-3.68	Did auditor(s) use professional judgment, reasonable care and professional skepticism in planning, performing, and reporting the engagement's results?					
Yellow Book Paragraph 3.68	Did auditor(s) identify, consider, minimize, mitigate and explain possible limitations or weaknesses affecting professional judgment?					
(3) Competence						
Yellow Book Paragraph 3.69 – 3.71	Did the assigned audit staff collectively possess adequate professional and technical competence to perform this engagement? (e.g.) Demonstrate professional development through training, assignments and evaluations.					
PLANNING STANDARDS						
(1) Written Representation from Management						
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .A12	Did IR receive a written representation from the responsible party that is the same as the responsible party's assertion?					

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____ Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	N/A	Notes
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .28	Does written representations include: a. include the responsible party's assertion about the subject matter based on the criteria. b. state 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. c. acknowledge 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. d. state that it has provided the practitioner with access to all records relevant to the subject matter and the agreed-upon procedures. e. state that the responsible party has disclosed to the practitioner other matters as the practitioner deems appropriate.					
(2) Memorandum of Understanding (MOU)						
Yellow Book Paragraph 5.64	Did the auditor establish a MOU with the client regarding the services to be performed?					
Yellow Book Paragraph 5.65	Did the MOU include the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement?					
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .14	Did the MOU contain the nature of the engagement, identification of the subject matter or assertion, the responsible party, and the criteria to be used?					
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .14	Did the MOU contain identification of specified parties, acknowledgement by the specified parties of their responsibility for the sufficiency of the procedures; IR's responsibilities; a statement that the engagement will be conducted IAW with attestation standards established by AICPA; agreement on procedures by enumerating (or referring to) the procedures?					
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .14	Did the MOU contain disclaimers expected to be included in IR's report, use restrictions, assistance to be provided to IR, involvement of an external specialist (if applicable); and agreed-upon materiality limits specified by the specified parties (if applicable)?					

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____ Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
AICPA, AT Section 601, Compliance Attestation, paragraph .09	If the engagement is an agreed-upon procedures engagement related to an entity's compliance with specified requirements or the effectiveness of internal control over compliance, did the responsible party accept responsibility for their compliance with specified requirements and/or the effectiveness of the internal control over compliance? Additionally, did the responsible party provide an evaluation documenting their compliance with specified requirements or the effectiveness of the entity's internal control over compliance?					
Yellow Book Paragraph 5.58	Did the MOU identify that the auditor would note significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that came to the auditors' attention during the engagement?					
AICPA, AT-C Section 215, Compliance Attestation, paragraph .9	Does the MOU contain the following IR responsibilities? "Internal Review will conduct an agreed-upon procedures attestation engagement IAW GAGAS, published by the United States Comptroller General. Internal Review assumes the risk that misapplication of the procedures may result in inappropriate findings being reported. Furthermore, IR assumes the risk that appropriate findings may not be reported or may be reported inaccurately. These risks will be managed through adequate planning and supervision and due professional care in performing the procedures, determining the findings, and preparing the report."					
(3) Supervision						
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .A9	Was there evidence of adequate planning, supervisory involvement, due professional care in performing the procedures, determining the findings, and preparing the report?					
FIELD WORK STANDARDS						
AICPA, AT Section 50, SSAE Hierarchy, paragraph .02	Did the auditor adequately plan the work and was the work properly supervised?					
AICPA, AT Section 101, Attest Engagements, paragraph .21	Did the auditor have adequate knowledge in the specific subject matter or did they obtain knowledge through formal or continuing education, practical experience, or consultation with others.					

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____				
		Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .20	Did the auditor obtain evidence from applying the agreed-upon procedures to provide a reasonable basis for the finding or findings expressed in the report?					
AICPA, AT Section 50, SSAE Hierarchy, paragraph .02	Did the auditor obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report? Note: The report should not express a conclusion about whether the subject matter is IAW (or based on) the criteria or whether the assertion is fairly stated. REF: AICPA, AT-C 215.25					
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .43b	Did the engagement documentation contain matters that included nature, timing, and extent of procedures to include (1) identifying characteristics of the specific items tested; (2) who performed the engagement work and date such work was completed; (3) who reviewed the engagement work performed and the date and extent of such review; and (4) results of the procedures performed and the evidence obtained.					
REPORTING STANDARDS						
(1) Report Contents						
Yellow Book Paragraph 5.6	Did the report cite compliance with GAGAS and distributing reports?					
Yellow Book Paragraph 5.62	Did the auditor mention limiting distribution of the report? For GAGAS agreed-upon procedures engagements, if the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution. Specifically, ensure classification statements (FOUO) are annotated on report.					
Yellow Book Paragraph 5.67	Did the report contain the following required element: "The auditors were not engaged in and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures, other matters might have come to their attention that would have been reported."					

4 of 7
revised 6/29/18

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____ Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .35	<p>Did the report contain the following elements?</p> <p><input type="checkbox"/> A title that includes the word, "independent"?</p> <p><input type="checkbox"/> Identification of the subject matter or assertion and the nature of the engagement?</p>					
	<input type="checkbox"/> Identification of the specified parties?					
	<input type="checkbox"/> A statement that the procedures performed were those agreed to by the specified parties identified in the report?					
	<input type="checkbox"/> A statement that identifies the responsible party and its responsibility for the subject matter or its assertion?					
	<input type="checkbox"/> A statement that the sufficiency of the procedures is solely the responsibility of the parties specified in the report?					
	<input type="checkbox"/> A statement that IR makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose?					
	<input type="checkbox"/> A list of the procedures performed (or reference thereto) and related findings. Note: Ensure the findings are specific to the procedures performed. If matters come to IR's attention by other means that significantly contradict the subject matter or assertion, IR should include this matter in the practitioner's report. (Paragraph .41)					
	<input type="checkbox"/> When applicable, a description of any agreed-upon materiality limits.					
	<p><input type="checkbox"/> A statement that</p> <p style="padding-left: 20px;">i. the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.</p> <p style="padding-left: 20px;">ii. the practitioner was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter.</p> <p style="padding-left: 20px;">iii. the practitioner does not express such an opinion or conclusion.</p> <p style="padding-left: 20px;">iv. had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported.</p>					
	<input type="checkbox"/> When applicable, a description of the nature of the assistance provided by a practitioner's external specialist, as discussed in paragraphs					

5 of 7
revised 6/29/18

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist Agreed-Upon Procedure Attestation Engagements		Project No. _____				
		Project Title: _____				
REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
	<input type="checkbox"/> When applicable, reservations or restrictions concerning procedures or findings.					
	<input type="checkbox"/> When the engagement is also performed in accordance with Government Auditing Standards, the alert that restricts the use of the report should include the following information: i. A description of the purpose of the report, and ii. A statement that the report is not suitable for any other purpose.					
AICPA, AT-C Section 215, Agreed Upon Procedures Engagements, paragraph .35qiii	Did the report contain the statement, "The responsible party provided a written assertion?"					
AICPA, AT Section 601, Compliance Attestation, paragraph .24	For compliance agreed upon procedures engagements: A statement that procedures, which were agreed to by the specified parties identified in the report, were performed to assist the specified parties in evaluating the entity's compliance with specified requirements or the effectiveness of its internal control over compliance.					
AICPA, AT Section 601, Compliance Attestation, paragraph .28	In some agreed-upon procedures engagements, procedures may relate to both compliance with specified requirements and the effectiveness of internal control over compliance.					
(2) Report Findings						
AICPA, AT Section 201, Agreed-Upon Procedures Engagements, paragraph .26	Did the auditor report all findings from the application of the agreed-upon procedures? Note: Any agreed-upon materiality limits should be described in the report.					
AICPA, AT-C Section 215, Agreed-Upon Procedures Engagements, paragraph .A21	Did the auditor avoid vague or ambiguous language in reporting the findings.					
NGB QCR Guidance	Do all charts and graphs have a hyperlink directly to the figure computations?					
Agreed Upon Procedures Attestation Project File Closeout						
Final Folder Review (NGB-IR QCR Checklist)	<input type="checkbox"/> Update the following in IRMS:					
	1. Findings and recommendations.					
	2. Final report/memorandum date.					
	3. Ensure entrance and exit dates are annotated.					
	4. Ensure all project time is recorded for this engagement.					
	5. Ensure travel costs relating to this engagement are recorded, as applicable.					
	6. Update customer survey results in IRMS.					
	6. Ensure project complete date is annotated.					

Nebraska USPFO IR Division Comments (cont'd)

Quality Control Checklist
 Agreed-Upon Procedure Attestation Engagements

Project No. _____

Project Title: _____

REFERENCE: GOVERNMENT AUDITING STANDARDS (GAS) (Yellow Book) AND AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) STANDARDS	NOMENCLATURE	MET	MIN MET	NOT MET	NA	Notes
	<input type="checkbox"/> Review file folder on the shared drive and DVD to ensure only applicable files are in the folder. Place all non-applicable files in the "dead" file. Also, ensure files are					
	<input type="checkbox"/> Label file folder for hard copies. Items to be included in file include:					
	1. Final report and cover or final memorandum					
	2. Final table of contents					
	3. IRMS project history					
	4. IRMS project direct time					

Reviewed:
 Supervisory Auditor
 (Signature & Date)

Auditor In Charge
 (Signature & Date)



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal.

The DoD Hotline Director is the designated ombudsman.

For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

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

Congressional Liaison

congressional@dodig.mil; 703.604.8324

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