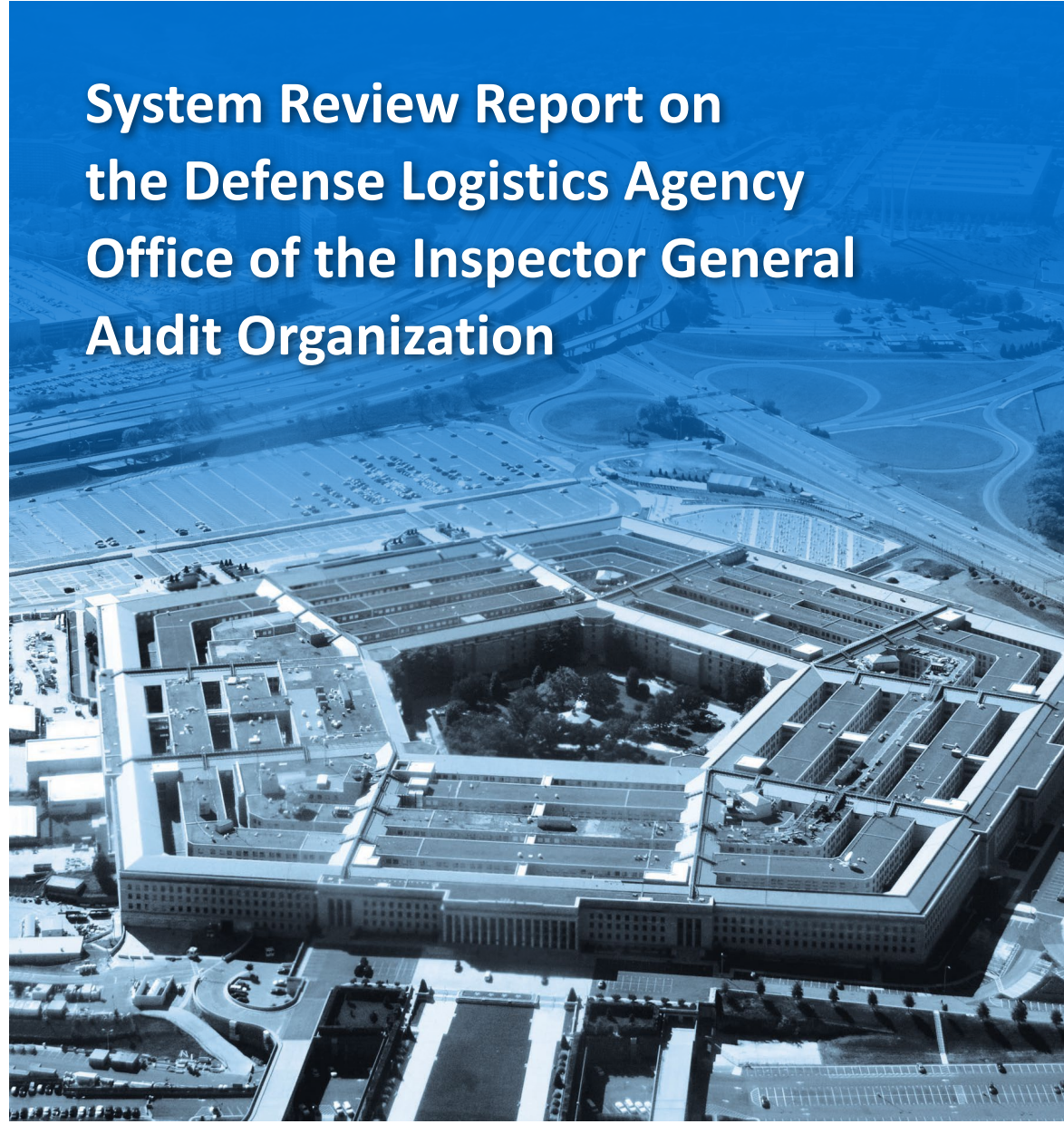




# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 28, 2020



## System Review Report on the Defense Logistics Agency Office of the Inspector General Audit Organization

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

April 28, 2020

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

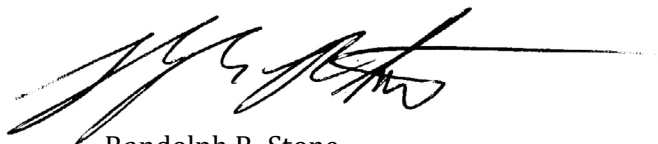
SUBJECT: System Review Report on the Defense Logistics Agency Office of the Inspector General Audit Organization (Report No. DODIG-2020-081)

The final report provides the results of the DoD Office of Inspector General's peer review on the Defense Logistics Agency Office of the Inspector General audit organization. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in Enclosure 2 of the report.

The Defense Logistics Agency Inspector General agreed to address all the recommendations presented in the report. Comments from the Defense Logistics Agency conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

If you have any questions or would like to meet to discuss the peer review, please contact

 We appreciate the cooperation and assistance we 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  
Assistant Inspector General for Evaluations  
Space, Intelligence, Engineering, and Oversight





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

April 28, 2020

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: System Review Report on the Defense Logistics Agency Office of the Inspector General Audit Organization (Report No. DODIG-2020-081)

We have reviewed the system of quality control for the Defense Logistics Agency (DLA) Office of the Inspector General (OIG) audit organization in effect for the 3-year period ended September 30, 2019. A system of quality control encompasses the DLA OIG audit organization's structure and the policies adopted and procedures established to provide it with reasonable assurance of conformity with the December 2011 version of the *Government Auditing Standards* (GAS).<sup>1</sup> The elements of quality control are described in GAS. The DLA OIG audit organization 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 DLA OIG audit organization's compliance with standards and requirements based on our review.

We conducted our review in accordance with the 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 audit personnel and obtained an understanding of the nature of the DLA OIG 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, attestation engagements, and administrative files to test for conformity with professional standards and compliance with the DLA OIG audit organization's system of quality control. In addition, we selected two attestation engagement projects in which the DLA OIG audit organization performed monitoring of an independent public accounting (IPA) firm for compliance with 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*. The projects we selected represent a reasonable cross section of the audits performed by the DLA OIG audit organization, with emphasis on higher risk audits. Prior to concluding the peer review, we reassessed the adequacy of the scope of the

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<sup>1</sup> The 2018 version of the GAS became effective for performance audits beginning on or after July 1, 2019. Therefore, the 2011 version of the GAS was in effect during the period covered by our review. However, our recommendations reference the 2018 version of the GAS since that version applies to performance audits that begin on or after July 1, 2019.

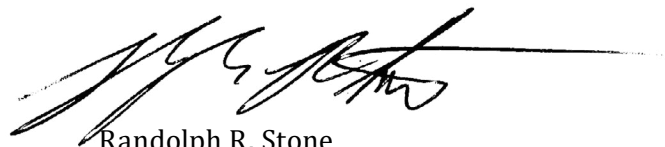
peer review procedures and met with DLA OIG audit management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the DLA OIG audit organization. In addition, we tested for compliance with the DLA OIG audit organization's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the DLA OIG audit organization'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, the system of quality control for the DLA OIG audit organization in effect for the period ended September 30, 2019, has been designed and complied with, to provide the DLA OIG audit organization 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 DLA OIG audit organization has received an external peer review rating of *pass*.

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.

As is customary, we have issued a letter of comment dated April 28, 2020, that sets forth findings we did not consider 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 peer review, please contact [REDACTED]. We appreciate the cooperation and assistance we received during the peer review.



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

Enclosures  
As stated

# Enclosure 1

## Scope and Methodology

We conducted this peer review from October 2019 through March 2020 in accordance with the *Government Auditing Standards (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*. These standards require that we obtain an understanding of the reviewed organization's system of quality control and conclude whether:

- the system is designed appropriately to ensure compliance with the GAS, and
- the organization is complying with the GAS and internal policies and procedures.

This peer review covered the 3-year period from October 1, 2016, through September 30, 2019. We tested compliance with the DLA OIG system of quality control to the extent we considered appropriate. These tests included a review of non-statistically selected performance audits, an attestation engagement, a terminated audit, and independent public accounting (IPA) monitoring projects conducted by the DLA OIG audit organization between October 1, 2016, and September 30, 2019.

To develop our non-statistical sample, we selected projects that would provide a reasonable cross-section of projects completed by the DLA OIG audit organization during the 3-year peer review period. For example, we considered the DLA OIG audit manager assigned to each project to ensure we selected a reasonable number of projects assigned to each audit manager and DLA OIG Audit Office.<sup>2</sup> Overall, the universe of projects included five performance audits, one attestation engagement, one terminated audit, and seven IPA monitoring projects. We selected three performance audits, one attestation engagement and one terminated audit for this peer review. Table 1 lists the projects we selected for review.

*Table 1. Projects Selected*

Project Title	Report Number	Type of Review
Audit of DLA Disposition Services Scrap Management Program for Europe and Africa	DLAOIG-FY18-08	Performance Audit
Audit of Time and Attendance	DLAOIG-FY18-03	Performance Audit
Audit of DLA Unmatched Collections and Disbursements	DLAOIG FY19-01	Performance Audit
Observe the Real Property Training and Execution	AUP-FY18-01	Attestation Engagement
Audit of Pharmaceutical Home Delivery Program	Not Applicable	Terminated Audit

<sup>2</sup> The DLA OIG audit organization has audit offices at Fort Belvoir, Virginia; Battle Creek, Michigan; New Cumberland, Pennsylvania; Philadelphia, Pennsylvania; and Richmond, Virginia.

We reviewed the audit documentation for the terminated DLA OIG project, “Audit of Pharmaceutical Home Delivery Program,” Project No. FY17-DLAOIG-09, to determine whether the DLA OIG audit staff documented the results of the work performed and why the DLA OIG audit organization terminated the audit. We determined that the DLA OIG audit organization terminated the audit in accordance with GAS and the DLA OIG quality control and assurance procedures.

In addition, we reviewed two IPA monitoring projects to determine whether the DLA OIG audit organization contracting officer representative performed reasonable procedures to ensure the IPA adhered to GAS. Table 2 lists the IPA monitoring projects we reviewed.

*Table 2. IPA Monitoring Projects Reviewed*

Project Title	Type of Review
Statement on Standards for Attestation Engagements No. 18 for Defense Automated Addressing System	Attestation Engagement
Statement on Standards for Attestation Engagements No. 18 for Defense Agencies Initiative	Attestation Engagement

We also reviewed continuing professional education documentation for the DLA OIG audit staff to determine compliance with the GAS. Additionally, we interviewed auditors at the five DLA OIG audit offices to determine their understanding of, and compliance with, the DLA OIG quality control policies and procedures. Finally, we reviewed DLA OIG audit policies and procedures to determine whether the policies and procedures complied with GAS using Appendix A of 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*.





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

April 28, 2020

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Letter of Comment on the Defense Logistics Agency Office of the Inspector General Audit Organization (Report No. DODIG-2020-081)

We reviewed the system of quality control for the Defense Logistics Agency (DLA) Office of the Inspector General (OIG) audit organization in effect for the 3-year period ended September 30, 2019, and issued our final system review report on April 28, 2020, in which the DLA OIG audit organization received a rating of *pass*. The final system review 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 system review report.

## **Finding 1. The Defense Logistics Agency Office of the Inspector General Audit Organization Did Not Monitor the Quality of Work Completed on Audits**

The DLA OIG audit organization did not perform monitoring of quality procedures and did not annually summarize the results of monitoring of quality procedures. In addition, the DLA OIG audit organization did not have policies and procedures in place for monitoring the quality of its auditors' work. GAS 3.93 states that audit organizations should establish policies and procedures for monitoring of quality in the audit organization.<sup>3</sup> In addition, GAS 3.94 states that the audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures for GAS audits.<sup>4</sup> Finally, GAS 3.95 states that 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.<sup>5</sup> 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.

<sup>3</sup> The requirement was moved to Section 5.42 of the 2018 GAS.

<sup>4</sup> The requirement was moved to Section 5.43 of the 2018 GAS.

<sup>5</sup> The requirement was moved to Section 5.44 of the 2018 GAS.

DLA OIG management explained that, due to reduced staffing and dissolution of its Quality Assurance team, the DLA OIG does not have a dedicated Quality Assurance program. When we asked about the DLA OIG audit organization's monitoring procedures, the DLA OIG auditors described procedures such as audit planning in-process reviews, an independent reference review process, and the use of quality control checklists. Although these measures are part of the DLA OIG audit organization system of quality control, they do not assess the work completed on audits. Monitoring of quality procedures should include an ongoing, periodic assessment of work completed on audits to ensure compliance with the DLA OIG audit organization system of quality control.

## **Recommendations, Management Comments, and Our Response**

### ***Recommendation 1***

**We recommend that the Defense Logistics Agency Inspector General update the Quality Control and Assurance Procedures to require that the audit organization analyze and summarize the results of monitoring of quality procedures at least annually, in accordance with the 2018 revision of Government Auditing Standard 5.44.**

### ***Defense Logistics Agency Inspector General Comments***

The DLA Inspector General agreed, stating that the DLA OIG will revise the Quality Control and Assurance Procedures to address Government Auditing Standard 5.44. In addition, the Inspector General stated the revision will be included in the next update of the Quality Control and Assurance Procedures. The update to the Quality Control and Assurance Procedures is scheduled to be completed by July 31, 2020.

### ***Our Response***

Comments from the Inspector General addressed all specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation once we verify that the DLA OIG updated the Quality Control and Assurance Procedures to address the 2018 revision of the Government Auditing Standard 5.44. We expect to receive the updated Quality Control and Assurance Procedures no later than July 31, 2020.

## ***Recommendation 2***

**We recommend that the Defense Logistics Agency Inspector General develop a plan to monitor its system of quality control, in accordance with the 2018 revision of Government Auditing Standard 5.43.**

### ***Defense Logistics Agency Inspector General Comments***

The DLA Inspector General agreed, stating that the DLA OIG will revise the Quality Control and Assurance Procedures to address Government Auditing Standard 5.43. In addition, the Inspector General stated the revision will be included in the next update of the Quality Control and Assurance Procedures. The update to the Quality Control and Assurance Procedures is scheduled to be completed by July 31, 2020.

### ***Our Response***

Comments from the Inspector General addressed all specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation once we verify that the DLA OIG updated the Quality Control and Assurance Procedures to address the 2018 revision of the Government Auditing Standard 5.43. We expect to receive the updated Quality Control and Assurance Procedures no later than July 31, 2020.

## **Finding 2. A Defense Logistics Agency Office of the Inspector General Audit Report Did Not Identify the Number of Task Orders Reviewed**

The Scope and Methodology section of Report No. DLAOIG-FY18-08, “Audit of DLA Disposition Services Scrap Management Program for Europe and Africa,” August 23, 2018, did not identify the number of task orders the auditors selected for review or the total task orders in the universe. GAS 7.12 states that, in describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested.<sup>6</sup> In addition, the auditors should identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors’ overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

The Scope and Methodology section in Report No. DLAOIG-FY18-08 states that the auditors non-statistically selected July and August 2017 task orders for review. The auditors reviewed the task orders to determine whether key contract requirements were met, such as whether contracting officer representatives were properly appointed and whether Monthly Collection Summary Reports were documented. The DLA OIG auditors informed us that they reviewed

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<sup>6</sup> Population is also referred to as the universe. The GAS 7.12 requirement was moved to Section 9.13 of the 2018 GAS.

all of the task orders during the months of July and August 2017. Based on our review of the working papers, we confirmed that the DLA auditors reviewed all 21 task orders processed in July and August. Specifically, the DLA auditors reviewed all 11 task orders from July 2017, and all 10 task orders from August 2017. However, the report did not include or describe the number of task orders that the auditors selected to review, or the total number of task orders that were processed during the 2 months under review. This information would have been useful to fully describe the work performed that supported the reported findings and conclusions.

## **Recommendation, Management Comments, and Our Response**

### ***Recommendation 3***

**We recommend that the Defense Logistics Agency Inspector General issue a memorandum to the audit staff to emphasize that auditors explain the relationship between the population and the items tested to describe the work performed that addressed the audit objective and supported the reported findings and conclusions, in accordance with the 2018 revision of Government Auditing Standard 9.13.**

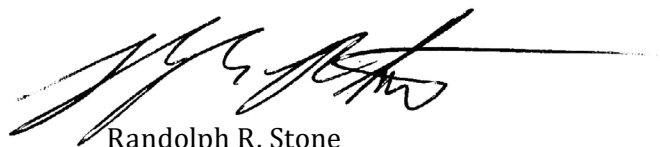
### ***Defense Logistics Agency Inspector General Comments***

The DLA Inspector General agreed with the recommendation. The Deputy Inspector General for Auditing issued a memorandum to all DLA OIG auditors on April 8, 2020, to explain the relationship between the population and the items tested in all future audit reports.

### ***Our Response***

Comments from the Inspector General addressed all specifics of the recommendation. The Inspector General provided us with the memorandum issued on April 8, 2020, which states that auditors should clearly explain the relationship between the populations and the items tested in future audit reports to include the number of items in the sample population and the number of items selected for review. Therefore, we have closed the recommendation.

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



Randolph R. Stone

Assistant Inspector General for Evaluations  
Space, Intelligence, Engineering, and Oversight

# Enclosure 2

## Management Comments

### Defense Logistics Agency Office of Inspector General (DLA OIG)



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 22060-6221

April 10, 2020

MEMORANDUM FOR THE OFFICE OF THE DEPARTMENT OF DEFENSE INSPECTOR  
GENERAL

SUBJECT: System Review Report on the Defense Logistics Agency Office of Inspector  
General Audit Organization (Project D2020-DEVOSO-0001.000)

The Defense Logistics Agency Office of Inspector General (DLA OIG) appreciates DoD  
OIG's efforts and the opportunity to provide feedback to this report. DLA OIG concurs with the  
recommendations and offers specific comments on the following page.

My point of contact is [REDACTED], Deputy Inspector General for Auditing,  
who can be reached at [REDACTED] or by telephone at [REDACTED]

RIGBY.WILLIAM.A  
LLEN  
WILLIAM A. RIGBY  
Inspector General

Digitally signed by  
RIGBY.WILLIAM.ALLEN  
Date: 2020.04.10 12:08:31 -04'00'

## ***Defense Logistics Agency Office of Inspector General (DLA OIG) (cont'd)***

SUBJECT: System Review Report on the Defense Logistics Agency Office of Inspector General Audit Organization (Project D2020-DEVOSO-0001.000)

### **Recommendation 1**

We recommend that the Defense Logistics Agency Inspector General update the Quality Control and Assurance Procedures to require that the organization analyze and summarize the results of monitoring of quality procedures at least annually, in accordance with the 2018 revision of Government Auditing Standard 5.44.

DLA OIG Comments: Concur. Changes required by the 2018 revision of Government Auditing Standards, including section 5.44 requiring an analysis and summary of the results of monitoring the quality procedures, will be included in the next update of the DLA OIG Quality Control and Assurance Procedures (QCAP) which is scheduled to be completed by 31 July 2020.

### **Recommendation 2**

We recommend that the Defense Logistics Agency Inspector General develop a plan to monitor its system of quality control, in accordance with the 2018 revision of Government Auditing Standard 5.43.

DLA OIG Comments: Concur. Changes required by the 2018 revision of Government Auditing Standards, including section 5.43 requiring an analysis and summary of the results of monitoring the quality procedures, will be included in the next update of the QCAP which is scheduled to be completed by 31 July 2020.

### **Recommendation 3**

We recommend that the Defense Logistics Agency Inspector General issue a memorandum to the audit staff to emphasize that auditors explain the relationship between the population and the items tested to describe the work performed that addressed the audit objective and supported the reported findings and conclusions, in accordance with the 2018 revision of Government Auditing Standard 9.13.

DLA OIG Comments: Concur. On 8 April 2020, The Deputy Inspector General for Auditing issued a memorandum to all DLA OIG auditors encouraging auditors to clearly explain the relationship between the population and the items tested in all future audit reports, to include the number of items in the sample population as well as the number of items selected for review.

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## **U.S. DEPARTMENT OF DEFENSE**

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