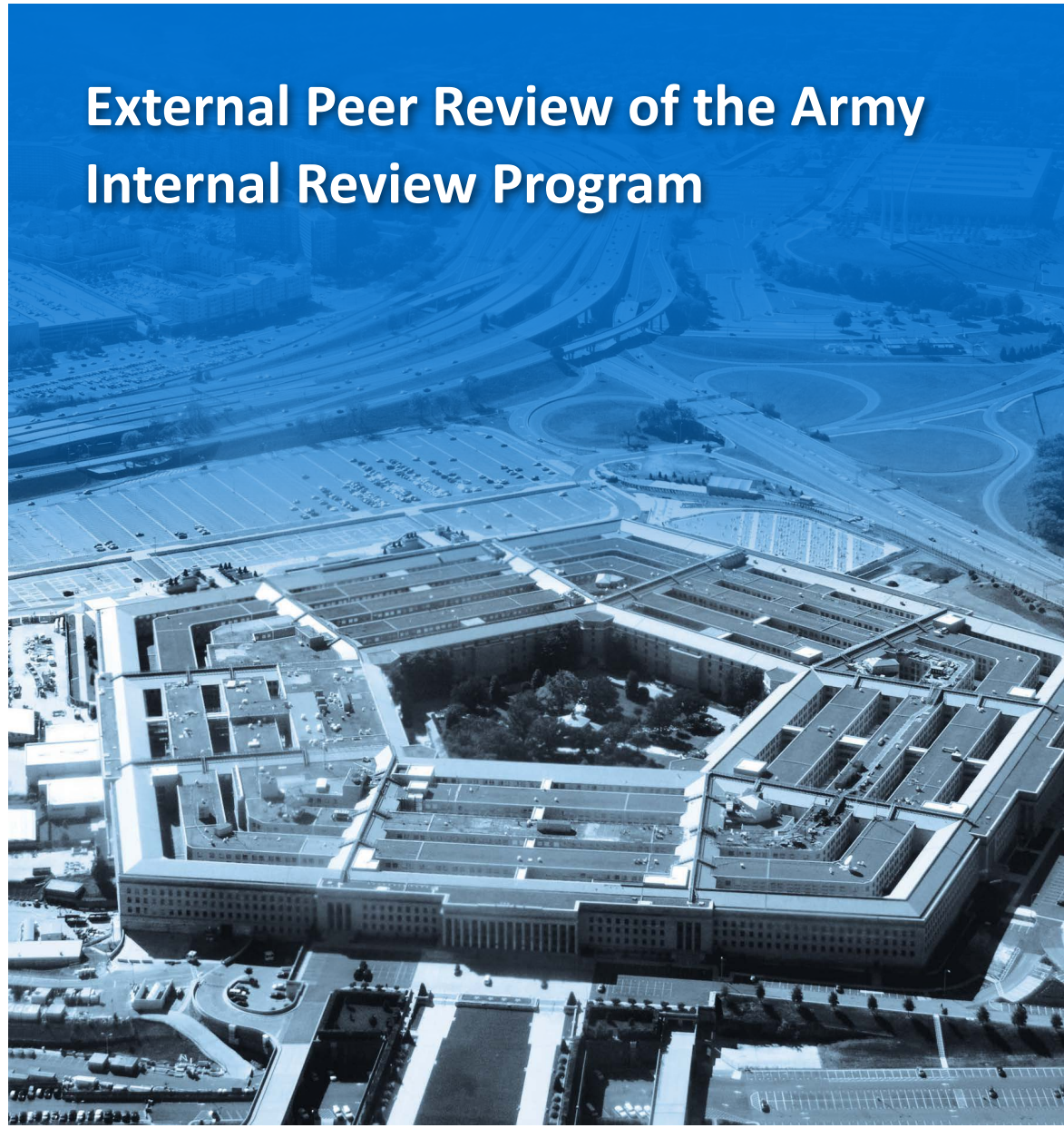




INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 9, 2023



External Peer Review of the Army Internal Review Program

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

January 9, 2023

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: External Peer Review of the Army Internal Review Program
(Report No. DODIG-2023-042)

This final report provides the results of the DoD Office of Inspector General's external peer review (peer review) on the Army Internal Review Program. We previously provided a draft of this report and requested written management comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Deputy Assistant Secretary of the Army (Financial Operations and Information) and U.S. Army Installation Management Command, agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. DoD Instruction 7650.03 requires that recommendations be resolved promptly. As described in the Recommendations, Management Comments, and Our Response sections of this report, the recommendations will remain open until documentation is submitted showing that the agreed-upon actions are complete. Once we verify that the actions are complete, the recommendations will be closed. Therefore, within 90 days, please provide us your response concerning the four resolved recommendations. Please send your responses to followup@dodig.mil.

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

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

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





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4800 MARK CENTER DRIVE
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January 9, 2023

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: System Review Report on the External Peer Review of the
Army Internal Review Program (Report No. DoDIG-2023-042)

We reviewed the system of quality control for the Army Internal Review (IR) Program in effect for the 3-year period that ended on December 31, 2021. A system of quality control encompasses the Army IR Program's structure, policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in the Government Auditing Standards.

In our opinion, except for the deficiencies described in this report, the system of quality control for the Army IR Program in effect for the 3-year period that ended on December 31, 2021, has been suitably designed and complied with to provide it with reasonable assurance of performing and reporting in conformity in all material respects with the Government Auditing Standards and applicable legal and regulatory requirements.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The Army IR Program has received an external peer review rating of *pass with deficiencies*.

The external peer review rating of *pass with deficiencies* is based on our assessment of the design of the Army IR Program's system of quality control, and the extent of compliance with the Government Auditing Standards and Army IR Program policies and procedures. We considered the nature, pervasiveness, and relative importance of the deficiencies we identified during our review of the Army IR Program's system of quality control and the extent of compliance with the Government Auditing Standards taken as a whole. The deficiencies we found during this peer review could create a situation in which the Army IR Program would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. However, none of the deficiencies we found rise to the level of a significant deficiency as defined in the Council of the Inspectors General on Integrity and Efficiency (CIGIE) "Guide for

Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,” which is required to support a fail rating.¹ Therefore, we determined the deficiencies taken as a whole support a *pass with deficiencies* rating for the Army IR Program.

LETTER OF COMMENT

We have issued a Letter of Comment dated January 9, 2023, that sets forth findings we did not consider to be of sufficient significance to affect our opinion expressed in this System Review Report.

BASIS OF OPINION

We conducted our peer review in accordance with the Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency, “Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,” September 2014 and March 2020 revisions.

During our peer review, we interviewed audit personnel and obtained an understanding of the nature of the Army IR Program and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessment, we nonstatistically selected performance audits, an attestation engagement, nonaudit services, and terminated audits to test for compliance with the Government Auditing Standards and the Army IR Program system of quality control, consisting of:

- 20 of 77 performance audits;
- 1 of 3 attestation engagements;
- 16 of 117 nonaudit services; and
- 6 of 10 terminated audits.

Our selection of the 43 projects represents a reasonable cross-section of the universe of projects conducted by the Army IR Program during the 3-year period that ended on December 31, 2021.

In performing our peer review, we tested for compliance with Army IR Program quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the Army IR Program’s policies and procedures on the selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

¹ CIGIE, “Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,” March 2020 revision. The CIGIE Guide defines a significant deficiency as one or more deficiencies that result in the system of quality control not providing the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. According to the CIGIE Guide, only peer reviews that identify one or more significant deficiencies result in a *fail* rating.

We held an exit conference with Army IR representatives to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion. The Enclosure identifies the scope and methodology, including our basis for selecting the projects we reviewed.

RESPONSIBILITIES AND LIMITATION

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

Inherent limitations exist in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected.

The projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate due to changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Organization of the Army Internal Review Program

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) has overall responsibility for the Army IR Program. The Internal Review Office, within the Army Risk Management Division of the Financial Operations and Accounting Directorate of the ASA(FM&C), is responsible for coordinating and directing all Army IR activities. The Army Financial Operations and Accounting Management Internal Review office responsibilities include:

- developing Army IR policy,
- monitoring the execution of the Army IR Program at the major Army commands, and
- providing oversight and training opportunities in support of the Army IR offices' local training programs.

As of January 10, 2022, the Army IR Program includes 194 offices. We nonstatistically selected nine Army IR offices for our review as discussed in Appendix A of this report. The Army IR offices provide internal audit capability to the Department of the Army commands, installations, and activities. The Army IR offices provide a full range of services, including full-scope internal audits and quick response audits, consulting services, and liaison services. Although a headquarters Army IR office provides Army IR policy and guidance for its command, individual Army IR offices report directly to base commanders, principal deputy commanders, or chiefs of staff.

The 2011 and 2018 Revisions to the Government Auditing Standards Applied to This Peer Review

Our description of each deficiency references the 2011 and 2018 revisions to the Government Auditing Standards (GAS), as applicable, because the 2018 revision became effective during the 3-year period covered by our review. The 2011 revision of the Government Auditing Standards applied to performance audits started from December 15, 2011, through June 30, 2019, and to attestation engagements covering periods that ended from December 15, 2012, through June 29, 2020. The 2018 revision of the Government Auditing Standards applies to performance audits started on or after July 1, 2019, and to attestation engagements covering periods ending on or after June 30, 2020. Table 1 identifies the number of selected projects where the 2011 and 2018 revisions to the Government Auditing Standards applied.

Table 1. Number of Selected Projects Where the 2011 and 2018 revisions to the Government Auditing Standards Applied

| Army IR Program Project Type | Number of Projects Under the GAS 2011 Revision | Number of Projects Under the GAS 2018 Revision | Total Projects |
|------------------------------|--|--|----------------|
| Performance Audit | 1 | 19 | 20 |
| Attestation Engagement | 0 | 1 | 1 |
| Nonaudit Service | 1 | 15 | 16 |
| Terminated Audit | 2 | 4 | 6 |
| Total | 4 | 39 | 43 |

Source: The DoD OIG.

In April 2021, the Government Accountability Office issued a technical update to the 2018 revision of the Government Auditing Standards, which became effective on issuance. Accordingly, our references to the 2018 revision of the Government Auditing Standards incorporate the April 2021 technical update of the Government Auditing Standards.

We Identified Three Deficiencies at Four Army IR Offices

We identified three deficiencies at four of the nine Army IR offices we selected for this review. We identified:

- Deficiency 1 at the U.S. Army Corps of Engineers (USACE) Mobile IR and USACE New Orleans IR offices;
- Deficiency 2 at the Headquarters, U.S. Army Installation Management Command Internal Review (HQ IMCOM IR) office; and

- Deficiency 3 at the USACE New Orleans IR; Headquarters, U.S. Army Materiel Command Internal Review and Audit Compliance (HQ AMC IRAC); and HQ IMCOM IR offices.

Deficiency 1. Auditors Did Not Comply with the Government Auditing Standards for 4 of 16 Nonaudit Services

For 4 of the 16 nonaudit services we reviewed, the auditors at the USACE Mobile and New Orleans IR offices did not comply with one or more of the following two GAS requirements for nonaudit services.

- GAS 3.34 of the 2011 revision to the Government Auditing Standards and GAS 3.73-3.74 of the 2018 revision to the Government Auditing Standards address management responsibilities for nonaudit services. Those standards state that auditors should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience and the individual understands the services to be provided to sufficiently oversee them. In addition, auditors should document their consideration of management's ability to effectively oversee nonaudit services to be provided.
- GAS 3.39 of the 2011 revision to the Government Auditing Standards and GAS 3.77 of the 2018 revision to the Government Auditing Standards state that, in connection with nonaudit services, auditors should establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, on the following:
 - objectives of the nonaudit service;
 - services to be performed;
 - audited entity's acceptance of its responsibilities;
 - the auditor's responsibilities; and
 - any limitations of the nonaudit service.

The USACE Mobile and New Orleans IR offices did not comply with the Government Auditing Standards for 4 of the 10 nonaudit services we selected for review at those offices. Specifically, the USACE Mobile IR office did not comply with the Government Auditing Standards for one of the five nonaudit services we selected for review at that office. The USACE Mobile IR office nonaudit service, "Voluntary Leave Transfer Program," did not comply with GAS 3.34 of the 2011 revision. The USACE Mobile IR office could not provide us with documentation demonstrating that the auditors determined the audited entity had a designated individual who possessed the suitable skill, knowledge, or experience, and that the individual understood the services to be performed to sufficiently oversee the services. Also, the USACE Mobile IR nonaudit service did not comply with GAS 3.39 of the 2011 revision.

The USACE Mobile IR office could not provide us with evidence demonstrating that the auditors established and documented their understanding of the services to be provided with the audited entity's management.

The USACE New Orleans IR office did not comply with the Government Auditing Standards for three of the five nonaudit services we selected for review at that office. Specifically, the three nonaudit services did not comply with GAS 3.77 of the 2018 revision because, similar to the USACE Mobile IR office, the auditors did not establish and document their understanding of the services to be provided with the audited entity's management. Table 2 identifies the Government Auditing Standards noncompliances associated with the four nonaudit services that the USACE Mobile and New Orleans IR offices performed.

Table 2. Government Auditing Standard Noncompliances for Nonaudit Services Performed at the USACE Mobile and USACE New Orleans IR Offices

| Army IR Office | Nonaudit Service | GAS 3.34, 2011 Revision or GAS 3.73-3.74, 2018 Revision | GAS 3.39, 2011 Revision or GAS 3.77, 2018 Revision |
|----------------------|--|--|---|
| USACE Mobile IR | Voluntary Leave Transfer Program | X | X |
| USACE New Orleans IR | Analysis of Unauthorized Commitments & Ratification Process of GPC Program | | X |
| USACE New Orleans IR | Review of Hurricane Storm Damage Risk Reduction System (HSDRRS) Contracts | | X |
| USACE New Orleans IR | Review of Section 408 Standard Operating Procedure | | X |

Note: An "X" denotes that the nonaudit service did not comply with the Government Auditing Standards.
Source: The DoD OIG.

We assessed the significance of this deficiency by taking into account the nature, pervasiveness, and relative importance of this deficiency to the Army IR Program's system of quality control and the extent of compliance with the Government Auditing Standards taken as a whole. We determined that this deficiency does not rise to the level of a significant deficiency as defined in the CIGIE Guide.

Army IR Took Corrective Action After the Nonaudit Services Were Performed

In November 2021, after the two offices conducted the four nonaudit services, the Headquarters USACE IR office issued a memorandum to the USACE field IR offices emphasizing that the auditors must comply with the nonaudit services requirements identified in GAS 3.73 through 3.77 and the USACE Standard Operating Procedures (SOP) for conducting nonaudit services.² The USACE Mobile and New Orleans IR offices' SOP similarly establish policies and procedures for nonaudit services.

² Headquarters, U.S. Army Corps of Engineers Policy, "Nonaudit Services Professional Standards for U.S. Army Corps of Engineers Internal Review," November 23, 2021.

In January and March 2022, in response to the HQ USACE IR memorandum, the USACE Mobile and New Orleans IR offices began to issue engagement notification memorandums for nonaudit services. The USACE IR auditors now send the engagement notification memorandum to the management of the audited entity at the beginning of a nonaudit service. We verified the engagement notification memorandum addresses the GAS nonaudit services requirements. Specifically, the notification memorandum establishes and documents the auditors' understanding with the audited entity's management the following information:

- objectives of the nonaudit service,
- services to be performed, and
- responsibilities of the audited entity and the auditors.

The HQ USACE IR, the USACE Mobile IR, and the USACE New Orleans IR offices actions are adequate to help ensure that the auditors comply with the Government Auditing Standards when performing nonaudit services. As a result of these actions, we are not making any recommendations.

Deficiency 2. Auditors Did Not Comply With the Reporting Standards When They Conducted One Agreed-Upon Procedures Engagement

For the one agreed-upon procedures (AUP) engagement we reviewed, the auditors did not comply with the Government Auditing Standards and the American Institute of Certified Public Accountants (AICPA) reporting standards.³ The HQ IMCOM IR office conducted the AUP engagement. Chapter 7 of the 2018 revision to the Government Auditing Standards and the AICPA's Statements on Standards for Attestation Engagements (SSAE) AT-C Section 215A establish requirements for AUP engagements.⁴ GAS 7.78 states that auditors should comply with applicable AICPA requirements when citing the Government Auditing Standards in their AUP reports. In addition, AICPA AT-C 215A.08 states that in performing an AUP engagement, the practitioner should comply with this section.⁵

For Project No. ATT-2021-001, "Risk Management Internal Control Program Annual Statement of Assurance, Fiscal Year 2021 Independent Attestation Engagement," the auditors did not include all of the statements and elements required by AICPA AT-C sections 215A.25 and 215A.35, and the HQ IMCOM IR SOP.⁶

³ According to AICPA AT-C Section 215, "Agreed-Upon Procedures Engagements," AUP attestation engagements consist 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.

⁴ We used the AICPA Statement on Standards for Attestation Engagements (SSAE) No. 18, AT-C Section 215A, "Agreed-Upon Procedures Engagements," to assess the HQ IMCOM IR office's compliance with AICPA AUP reporting standards. AT-C Section 215A was effective for AUP reports dated on or after May 1, 2017. The HQ IMCOM IR issued the AUP report we reviewed on March 24, 2021. In December 2019, the AICPA issued SSAE No. 19, AT-C Section 215, "Agreed-Upon Procedures Engagements," which superseded SSAEs No. 18 AT-C section 215A. SSAE No. 19 became effective for AUP reports dated on or after July 15, 2021.

⁵ AICPA AT-C Section 105, "Concepts Common to All Attestation Engagements," defines a practitioner as the person or persons conducting the attestation engagements, which is usually the engagement partner or other members of the engagement team.

⁶ Project No. ATT-2021-001, "Risk Management Internal Control Program Annual Statement of Assurance, Fiscal Year 2021 Independent Attestation Engagement," March 24, 2021.

We identified the following deficiencies for the AUP report.

- **The report expressed an opinion or conclusion.** AICPA AT-C 215A.25 states the practitioner's report should not express an opinion or conclusion about whether the subject matter is in accordance with, or based on, the criteria or whether the assertion is fairly stated. The auditors included a conclusion section in the report based on the procedures the auditors had performed. Specifically, the auditors concluded that the HQ IMCOM Risk Management Internal Control program did not provide reasonable assurance that key internal controls were properly functioning due to deficiencies with the program's structure and internal controls.
- **The report did not list the procedures performed.** AICPA AT-C 215A.35h states the practitioner's report should include a list of the procedures performed, or a reference to the procedures. The HQ IMCOM IR office agreed with the Director of Resource Management to perform seven procedures to determine whether the Risk Management Internal Control program provides reasonable assurance that the Command's internal controls are adequate and properly functioning to ensure organizational effectiveness and compliance. The HQ IMCOM IR office report did not include a list of the procedures performed or a reference to the procedures.
- **The report did not include a statement that the auditor was not engaged to, and did not conduct, an examination or review.** AICPA AT-C 215A.35j.ii states the practitioner's report should include a statement that the practitioner was not engaged to, and did not conduct, an examination or review.⁷
- **The report did not include a statement that the auditors did not express an opinion or conclusion.** AICPA AT-C 215A.35j.iii states the practitioner's report should include a statement that the practitioners do not express an opinion or conclusion.

The IR Director stated the auditors did not include the missing reporting elements in the AUP report because the auditors included the reporting elements in the written agreement for the AUP engagement prepared during the planning phase of the engagement.⁸ We reviewed the written agreement and confirmed the AUP reporting elements the auditors omitted from the report were included in the written agreement. However, the Government Auditing Standards and AICPA AT-C 215A standards do not state that a written agreement can be used as a substitute for information that is required to be included in the AUP report.

It is important that auditors have an understanding of the Government Auditing Standards and AICPA standards when reporting on AUP engagements. AICPA standards require certain reporting language to be included in an AUP report, which helps ensure that users of the reports understand the nature of the work performed and the results of the engagement.

⁷ An examination engagement and review engagement are the two other types of attestation engagements auditors can perform.

⁸ A written agreement for an AUP engagement is prepared during the planning phase of the engagement and identifies the procedures to be performed by the auditors, the responsibilities of each party, and the expected outcome.

We assessed the significance of this deficiency by taking into account the nature, pervasiveness, and relative importance of this deficiency to the Army IR Program's system of quality control and the extent of compliance with the Government Auditing Standards taken as a whole. We determined that this deficiency does not rise to the level of a significant deficiency as defined in the CIGIE Guide.

The DoD OIG Found Similar Agreed-Upon Procedures Engagement Reporting Deficiencies in the Previous Peer Review of the Army IR Program

The DoD OIG found similar AUP reporting deficiencies at one Army IR office during the previous peer review of the Army IR Program. In Report No. DODIG-2020-050, the DoD OIG reported that the IMCOM Fort Belvoir IRAC office did not comply with the Government Auditing Standards and AICPA reporting requirements for AUP engagements.⁹

The DoD OIG recommended that the Audit Compliance Office Director of the U.S. Army Installation Management Command Fort Belvoir Internal Review Audit Compliance Office update attestation engagement policies and procedures to ensure that they include the most recent AICPA reporting standards. Also, the DoD OIG recommended the Audit Compliance Office Director provide training to the audit staff to improve their understanding and knowledge of the Government Auditing Standards and AICPA standards on conducting AUP engagements.

Based on the results of this current peer review, the HQ IMCOM IR office should take additional actions to ensure that auditors comply with the Government Auditing Standards and AICPA reporting standards when reporting on AUP engagements.

Recommendation, Management Comments, and Our Response

Recommendation 1

We recommend that the Headquarters, U.S. Army Installation Management Command Internal Review Director, provide training to the audit staff to improve their understanding and knowledge of Government Auditing Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements.

U.S. Army Installation Management Command Deputy Commanding General Comments

The IMCOM Deputy Commanding General agreed with the recommendation. Specifically, the Deputy Commanding General stated that the HQ IMCOM IR Director will provide training to the audit staff to improve their understanding and knowledge of Government Auditing

⁹ Report No. DODIG-2020-050, "System Review Report on the Army Internal Review Program," January 15, 2020.

Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements. The Deputy Commanding General estimated that the training will be completed by April 30, 2023.

Our Response

Comments from the IMCOM Deputy Commanding General addressed the specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation when we verify that the audit staff in the HQ IMCOM IR office received training for reporting on agreed-upon procedures engagements.

Deficiency 3. Three Army IR Offices Did Not Perform Adequate Monitoring of Quality Procedures

Three Army IR offices did not perform adequate procedures related to monitoring of quality. We identified the following deficiencies at the three offices.

- The USACE New Orleans IR office did not perform procedures for monitoring its system of quality control for 2 years of the 3-year review period that ended on December 31, 2021.
- The HQ AMC IRAC office did not annually summarize its monitoring procedures for 1 year of the 3-year period that ended on December 31, 2021.
- The HQ IMCOM IR office's monitoring procedures did not identify noncompliances with the Government Auditing Standards in the area of supervision and with the AICPA standards in the area of reporting for AUP engagements.

GAS 5.43 of the 2018 revision to the Government Auditing Standards states an audit organization should perform monitoring procedures that enable it to assess compliance with professional standards and quality control policies and procedures for GAS engagements. Additionally, GAS 5.44 of the 2018 revision to the Government Auditing Standards 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 problems needing improvement, along with recommendations for corrective actions. The HQ USACE IR Quality System Policy states auditors should perform monitoring procedures that enable the auditors to assess compliance with professional standards and quality control policies and procedures for GAS engagements.¹⁰

We assessed the significance of this deficiency by taking into account the nature, pervasiveness, and relative importance of this deficiency to the Army IR Program's system of quality control and the extent of compliance with the Government Auditing Standards taken as a whole. We determined that this deficiency does not rise to the level of a significant deficiency as defined in the CIGIE Guide.

¹⁰ Headquarters, U.S. Army Corps of Engineers Policy, "Headquarters USACE Internal Review Quality System Policy," January 26, 2022.

The USACE New Orleans IR Office Did Not Perform Monitoring of Quality Procedures for 2 of the 3 Years

The USACE New Orleans IR office did not perform procedures for monitoring its system of quality control for 2 years of the 3-year review period that ended on December 31, 2021.

In May 2021, the USACE North Atlantic IR Division conducted an internal peer review of the USACE New Orleans IR office, and found that the USACE New Orleans IR office did not perform monitoring procedures in 2019 and 2020.¹¹ The Chief of the USACE New Orleans IR office told us that the auditors did not perform self-assessments in 2019 and 2020 because the IR office was waiting for updated guidance from HQ USACE IR on monitoring procedures. HQ USACE IR provided the updated guidance for monitoring procedures to the USACE IR field offices in January 2022.

In December 2021, the USACE New Orleans IR office performed its first self-assessment to determine whether its auditors complied with the Government Auditing Standards while performing work.¹² The USACE New Orleans IR office summarized the results of the self-assessment in an Annual Quality Assurance Report.¹³ The report summarized the results from one performance audit and the USACE New Orleans IR office's policies and procedures. In the future, the USACE New Orleans IR office plans to conduct self-assessments at least annually in accordance with the Government Auditing Standards.

Because the USACE New Orleans IR office has already taken corrective actions to address this deficiency and began performing self-assessments, we are not making a recommendation to that office.

The Headquarters, U.S. Army Materiel Command Internal Review and Audit Compliance Office Did Not Annually Summarize Monitoring of Quality Procedures

The HQ AMC IRAC office did not annually summarize the results of its monitoring procedures for 1 year of the 3-year period that ended on December 31, 2021.

When asked about monitoring procedures at the HQ AMC IRAC office in 2020, the Director described procedures such as ongoing consideration and evaluation of the office's policies and procedures. Additionally, the Director stated that independent reviews are performed at the completion of each audit by an independent staff member. During the review, the staff member completes a checklist to assess the audit's compliance with the Government Auditing Standards.

¹¹ The scope of the USACE North Atlantic IR Division's internal peer review of the USACE New Orleans IR office was October 1, 2018, through November 30, 2020.

¹² Self-assessments and quality assurance reviews performed by the USACE New Orleans IR, HQ AMC IRAC, and HQ IMCOM IR offices represent procedures for monitoring of quality.

¹³ Audit Report No. CEMVN-IR 22-500-06, "Annual Monitoring Report on the U.S. Army Corps of Engineers, New Orleans District Internal Review Office (CEMVN-IR) for 2021," February 7, 2022.

We determined that the procedures the Director described are monitoring procedures. However, he did not prepare an annual summary on the results of the monitoring procedures that were performed. Any monitoring of quality procedures that are performed should be summarized and documented annually to show that the audit organization considered any systemic or repetitive issues needing improvement, along with recommendations for corrective action.

Monitoring Procedures Performed by the HQ IMCOM IR Office Did Not Identify Noncompliance with Government Auditing Standards and AICPA Reporting Standards

The HQ IMCOM IR office's monitoring procedures did not identify noncompliance with the Government Auditing Standards in the area of supervision and with the AICPA standards in the area of reporting for AUP engagements.

The HQ IMCOM IR office established a quality assurance program to provide reasonable assurance that the auditors comply with standards as required by HQ IMCOM IR SOP. The HQ IMCOM IR office performed quality assurance reviews of the same two performance audits and one AUP engagement we selected for this peer review. The HQ IMCOM IR office did not identify any noncompliance even though we identified the following instances of noncompliance:

- For one AUP engagement, "Risk Management Internal Control Program Annual Statement of Assurance, Fiscal Year 2021," the auditors did not include required AICPA reporting elements in the report (see Deficiency 2 of this report).
- For one audit, "Audit of Army Banking and Investment Fund," the supervisor did not document his review of 10 of 13 working papers supporting the findings, conclusions, and recommendations before audit report issuance (see the attached Letter of Comment, Finding 3).¹⁴

A thorough quality assurance review of the audit and AUP engagement would have identified these instances of noncompliance and prompted HQ IMCOM IR office management to take timely and appropriate corrective action. Quality assurance reviews are an integral component of an audit organization's system of quality control, and when performed as intended, provide valuable feedback on compliance with Government Auditing Standards, AICPA standards, and internal policies and procedures.

¹⁴ Report No. NAF 2021-0010, "Audit of Army Banking and Investment Fund," September 22, 2021.

The DoD OIG Found Similar Monitoring of Quality Deficiencies in the Previous Peer Review

The DoD OIG found similar quality monitoring deficiencies in the previous peer review of the Army IR Program. In Report No. DODIG-2020-050, the DoD OIG reported that four of the nine offices did not perform procedures for monitoring its system of quality control and did not annually summarize the results of monitoring procedures.¹⁵ During the previous peer review, the Office of the ASA(FM&C) took corrective action to address the deficiencies we had found. Specifically, on September 19, 2019, the Office of the ASA(FM&C) issued a memorandum, “Monitoring of Quality for Army Internal Review Offices,” to all Army IR offices, emphasizing the importance of complying with the monitoring of quality standards contained in GAS 5.42 through 5.46, 2018 revision.

The corrective actions were not fully effective because we found quality monitoring deficiencies associated with three of the nine offices selected for this peer review. Based on the results of this peer review, the Office of the ASA(FM&C) should take additional actions to ensure that auditors comply with the Government Auditing Standards for monitoring of the system of quality control. Additionally, the HQ IMCOM IR office should take actions to ensure that auditors adequately monitor quality procedures that enable an assessment of compliance with applicable professional standards, as well as quality control policies and procedures for GAS engagements.

Recommendation, Management Comments, and Our Response

Recommendation 2

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations and Information) develop a process for the monitoring of quality within the Army Internal Review offices that is appropriate for the size of the audit organization in accordance with Government Auditing Standard 5.43-5.44.

Deputy Assistant Secretary of the Army (Financial Operations and Information) Comments

The Deputy Assistant Secretary of the Army (Financial Operations and Information) agreed with the recommendation. Specifically, the Assistant Secretary of the Army (Financial Management and Comptroller) will develop a formal process for the monitoring of quality within the Army Internal Review program that is appropriate for the size and scope of the program. The Deputy Assistant Secretary of the Army (Financial Operations and Information) estimated that the formal process for monitoring of quality will be implemented by September 30, 2023.

¹⁵ The USACE New Orleans IR, HQ AMC IRAC, and HQ IMCOM IR offices were not included in the four of the nine offices where this deficiency was identified during the previous peer review of the Army IR Program.

Our Response

Comments from the Deputy Assistant Secretary of the Army (Financial Operations and Information) addressed the specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation once we verify the Assistant Secretary of the Army (Financial Management and Comptroller) developed a formal process for the monitoring of quality within the Army Internal Review program.

Recommendation, Management Comments, and Our Response

Recommendation 3

We recommend that the Headquarters, U.S. Army Installation Management Command Internal Review Director, develop a plan for the auditors to obtain training on performing procedures to monitor its system of quality control in accordance with Government Auditing Standard 5.43.

U.S. Army Installation Management Command Deputy Commanding General Comments

The IMCOM Deputy Commanding General agreed with the recommendation. Specifically, the Deputy Commanding General stated that the HQ IMCOM IR Director will provide training to all staff. The training will focus on the proper use and application of the Council of the Inspectors General on Integrity and Efficiency guides for performance audits and attestation engagements to ensure compliance with the Government Auditing Standards and the American Institute of Certified Public Accountants reporting standards. The Deputy Commanding General estimated that the training will be completed by April 30, 2023.

Our Response

Comments from the IMCOM Deputy Commanding General addressed the specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation when we verify that the auditors at the HQ IMCOM IR office received training focused on the proper use and application of the Council of the Inspectors General on Integrity and Efficiency guides for the monitoring of performance audits and attestation engagements.

If you have any questions or would like to meet to discuss the review, please contact Mark Dixon, (703) 604-8739 (DSN 664-8739). 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

Scope and Methodology

We conducted this peer review from January 2022 through October 2022 in accordance with the Government Auditing Standards and the CIGIE “Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General.” These standards require that we obtain an understanding of the reviewed organization’s system of quality control and conclude whether the:

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

This peer review covered the 3-year period from January 1, 2019, through December 31, 2021. We tested compliance with the Army IR Program’s system of quality control to the extent we considered appropriate. We nonstatistically selected 9 Army IR Program offices among the 194 offices that existed as of January 10, 2022. Table 3 lists the nine Army IR offices we selected for this review.

Table 3. The Nine Army IR Offices We Selected for Review

| Army IR Office | Location |
|---|----------------------------|
| Headquarters, U.S. Army Materiel Command Internal Review and Audit Compliance | Redstone Arsenal, Alabama |
| Headquarters, U.S. Army Installation Management Command Internal Review | Fort Sam Houston, Texas |
| U.S. Army Tank-automotive and Armaments Command Internal Review and Audit Compliance (TACOM IRAC) | Detroit Arsenal, Michigan |
| U.S. Army Training and Doctrine Command, Office of Internal Review and Audit Compliance (TRADOC IRAC) | Fort Eustis, Virginia |
| Headquarters, U.S. Army Reserve IR (HQ USAR IR) | Fort Bragg, North Carolina |
| U.S. Army Reserve-63 rd Readiness Division IR | Mountain View, California |
| U.S. Army Reserve-364 th Sustainment Command (Expeditionary) (USAR 364 th ESC) IR | Marysville, Washington |
| U.S. Army Corps of Engineers, Mobile District | Mobile, Alabama |
| U.S. Army Corps of Engineers, New Orleans District | New Orleans, Louisiana |

Source: The DoD OIG.

We nonstatistically selected these nine offices after considering:

- which commands and field IR offices were selected in the DoD OIG’s previous peer review of the Army IR Program;
- the number of audit, attestation engagement, and nonaudit service reports each office issued during the 3-year period; and
- the number audits that each office terminated during the 3-year period.

We did not include the National Guard Bureau IR office in our review because we conduct a separate peer review for the National Guard Bureau IR Program. We issued the last results of the National Guard Bureau IR office in Report No. DoDIG-2022-062, “External Peer Review of the National Guard Bureau Internal Review Office,” February 10, 2022.

Once we selected the nine offices for this review, we requested that each office furnish a list of projects they completed or terminated during the 3-year period. Then, we selected a nonstatistical sample of projects that would provide a reasonable cross-section of projects completed and terminated by each office. The nine Army IR offices completed or terminated 207 total projects. We selected 43 projects for our review, consisting of:

- 20 of 77 performance audits;
- 1 of 3 attestation engagements;
- 16 of 117 nonaudit services; and
- 6 of 10 terminated audits.

We used the appendixes and procedures in the September 2014 and March 2020 revisions of the CIGIE Guide identified in the following appendixes to conduct this peer review.

Policies and Procedures (CIGIE Guide Appendix A)

We reviewed the Army IR Program audit policies and procedures established at the nine offices we selected to determine whether the policies and procedures complied with the Government Auditing Standards. We requested that the Army IR offices complete Column 1 of the CIGIE Guide’s Appendix A, “Policies and Procedures,” and provide a copy of relevant audit policies and procedures. We recorded our conclusions and comments on whether the policies and procedures are adequate and comply with the Government Auditing Standards in Column 2 of Appendix A. We concluded that the policies and procedures are adequate and comply with the Government Auditing Standards.

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

Using the CIGIE Guide’s Appendix B checklist, we tested each of the nine Army IR offices for compliance with the Government Auditing Standards general standards, consisting of independence, competence, continuing professional education, and quality control and peer review.

Independence

We reviewed Army IR independence records for all auditors assigned to the 37 projects that the nine Army IR offices completed and we selected for review (which excludes the 6 terminated audits we selected for review). We determined that the auditors complied with the independence requirements in the Government Auditing Standards and Army IR policies and procedures.

Competence and Continuing Professional Education

We interviewed a nonstatistical sample of 36 of the 48 supervisors and auditors (excluding nonaudit staff) who worked at the nine selected Army IR offices as of January 10, 2022. In selecting our nonstatistical sample, we chose supervisors and auditors that would provide a reasonable cross-section of audit staff at the nine Army IR offices. We interviewed the supervisors and auditors to determine their understanding of, and compliance with, the Government Auditing Standards and the Army IR Program quality control policies and procedures. Based on the interview results, we concluded that the auditors are competent and have an adequate understanding of the Government Auditing Standards and Army IR Program policies and procedures.

We also nonstatistically selected a sample of 42 of the 50 supervisors and auditors at the nine offices we selected for review and the Internal Review Office, within the Army Risk Management Division of the Financial Operations and Accounting Directorate of the ASA(FM&C), to determine whether the auditors obtained the continuing professional education hours required by the Government Auditing Standards during a 2-year period. The 42 supervisors and auditors who were employed during the most recently completed 2-year period. We did not select the remaining eight auditors because they were either not assigned to perform audits or employed at an Army IR office during the entire 2-year period. GAS 4.16 of the 2018 revision to the Government Auditing Standards states that auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with the Government Auditing Standards should complete at least 80 hours of continuing professional education in every 2-year period. Also, GAS 4.17 of the 2018 revision to the Government Auditing Standards states auditors should complete at least 20 hours of continuing professional education in each year of the 2-year period. We determined the auditors met the Government Auditing Standards continuing professional education requirements.

Quality Control and Peer Review

We reviewed all internal quality control reviews that seven of the nine Army IR offices completed during the 3-year review period. We reviewed the internal quality control reviews to determine whether the Army IR offices:

- performed monitoring procedures that enabled it to assess compliance with professional standards and quality control policies and procedures; and
- analyzed and summarized the results of its monitoring procedures, at least annually, with identification of any systemic or repetitive problems needing improvement with recommendations for corrective action.

Six of the nine offices complied with the Government Auditing Standards for monitoring of quality procedures. One of the nine offices performed an internal quality control review, but the review did not identify noncompliances with the Government Auditing Standards. Another office did not perform procedures for monitoring its system of quality control for 2 years of the 3-year review period. A third office did not annually summarize its monitoring procedures for 1 year of the 3-year review period. See Deficiency 3 of this report for additional details.

Checklist for Agreed-On Procedures Engagements (CIGIE Appendix D3)

From January 1, 2019, through December 31, 2021, the nine Army IR offices selected for this peer review completed three attestation engagements. We nonstatistically selected one AUP engagement for our review. We reviewed the selected AUP engagement to assess compliance with the Government Auditing Standards and the AICPA standards using Appendix D3 of the CIGIE Guide. Specifically, we reviewed Project No. ATT-2021-001, “Risk Management Internal Control Program Annual Statement of Assurance, Fiscal Year 2021 Independent Attestation Engagement,” March 24, 2001. The HQ IMCOM IR office conducted this AUP engagement.

We determined that the HQ IMCOM IR auditors did not comply with the Government Auditing Standards and the AICPA reporting requirements when they conducted the AUP engagement. See Deficiency 2 of this report for additional details.

Performance Audits Conducted by the Army IR Offices (CIGIE Guide Appendix E)

For the 3-year period that ended on December 31, 2021, the nine Army IR offices selected for this peer review completed 77 performance audits. We nonstatistically selected a sample of 20 performance audits for our review. In selecting our nonstatistical sample, we chose audits that would provide a reasonable cross-section of performance audits that the Army IR offices conducted during the 3-year period. For example, we chose performance audits that resulted in the selection of various Army IR audit supervisors and auditors. We reviewed the

performance audits for compliance with the Government Auditing Standards using Appendix E of the CIGIE Guide. We determined that six offices did not comply with the Government Auditing Standards when they conducted performance audits. See the attached Letter of Comment, Findings 1, 2, and 3 for additional details. Table 4 lists the performance audits we selected for our review.

Table 4. Performance Audits Selected for Review

| Audit Title | Report Number | Army IR Office |
|---|---------------|---|
| Audit of Information Technology Equipment Accountability | 2020-02 | HQ AMC IRAC |
| Audit of Explosives Safety Management Program | 2020-03 | HQ AMC IRAC |
| Command Wide Cash Controls and Bingo Audit—Fort Hood | 2021-003 | HQ IMCOM IR |
| Audit of Army Banking & Investment Fund | 2021-010 | HQ IMCOM IR |
| Audit of Defense Travel System Payments for 63 rd RD Yellow Ribbon Reintegration Program | 19-020 | HQ USAR IR |
| Audit of Defense Travel System Payments for 3 rd Medical Command | 20-016 | HQ USAR IR |
| Audit of Defense Travel System Payments at 102 nd Training Division (Maneuver Support) | 21-011 | HQ USAR IR |
| Catered Meal Program at 364 Expeditionary Support Command (ESC) | 2019-03 | USAR 364 th ESC IR |
| Government Purchase Card Program at 364 ESC | 2020-01 | USAR 364 th ESC IR |
| Defense Travel System Vouchers Audit | 2021-01 | USAR 364 th ESC IR |
| Audit of Miscellaneous Payments | 2020-63-04 | USAR 63 rd Readiness Division IR |
| Management Controls-Peru Project Office | 2019-006 | USACE Mobile IR |
| VA Bed Tower Contract Review | 2021-003 | USACE Mobile IR |
| Follow-Up Audit of Section 408 Permissions | 20-500-03 | USACE New Orleans IR |
| Audit of Bipartisan Budget Act of 2018 (BBA-18) Grand Isle Project | 21-500-02 | USACE New Orleans IR |
| Audit of Travel and Government Travel Charge Card | 2019-010 | TACOM IRAC |
| Red River Army Depot Capital Investment Program Audit | 2020-003 | TACOM IRAC |
| 4 th Quarter Fiscal Year 2020 Depot Maintenance 50/50 Audit | 2021-001 | TACOM IRAC |
| Audit of the Army Distributed Learning Program | 2020-003 | TRADOC IRAC |
| Audit of TRADOC G-6 Lifecycle Replacement Plan | 2020-004 | TRADOC IRAC |

Source: The DoD OIG.

Terminated Audits (CIGIE Risk Assessment Procedure)

For the 3-year period that ended on December 31, 2021, the nine Army IR offices selected for this peer review terminated ten audits. We nonstatistically selected a sample of six terminated audits for our review. We reviewed the audit documentation for the six terminated projects to determine whether the Army IR offices complied with the Government Auditing Standards requirements for documenting the results of the work to date of the termination and the reason why the auditors terminated the audit. The Army IR offices complied with the Government Auditing Standards when the offices terminated the audits. Table 5 identifies the six terminated audits we selected for our review.

Table 5. Terminated Audits Selected for Review

| Audit Title | Project Number | Army IR Office |
|---|----------------|---|
| Follow-Up Audit of Report A-2018-0048-ALS, Readiness Reporting for Ammunition Outload Operations | 2019-05 | HQ AMC IRAC |
| Quick Reaction Audit to Support Required Existence and Completeness Testing of Real Property at Anniston Army Depot | 2019-06 | HQ AMC IRAC |
| Army Reserve Internal Review Audit of the United States Army Reserve Government Purchase Card Program | 19-010 | HQ USAR IR |
| 63 rd Readiness Division Food Service Program – Catered Meals | 2019-65-05 | USAR 63 rd Readiness Division IR |
| Follow-Up Audit of Audit 2016-63-05, Yellow Ribbon Reintegration Program | 2020-63-05 | USAR 63 rd Readiness Division IR |
| Audit of Leave and Pass at 191 Combat Sustainment Support Battalion (CSSB) | 2019-01 | USAR 364 th ESC IR |

Source: The DoD OIG.

Nonaudit Services Performed by the Army IR Offices

From January 1, 2019, through December 31, 2021, the Army IR offices selected for this peer review performed 117 nonaudit services. We nonstatistically selected a sample of 16 nonaudit services for our review. In selecting our nonstatistical sample, we chose nonaudit services that would provide a reasonable cross-section of nonaudit services that the Army IR offices performed. For example, we chose nonaudit services that resulted in the selection of various audit supervisors and auditors from the Army IR offices. We reviewed the nonaudit services to determine whether the Army IR offices complied with the Government Auditing Standards when the offices performed the nonaudit services. We determined that the auditors at the USACE Mobile and New Orleans IR offices did not comply with Government Auditing Standards when they conducted four nonaudit services. See Deficiency 1 of this report for additional details. Table 6 lists the nonaudit services we selected for our review.

Table 6. *Nonaudit Services Selected for Review*

| Nonaudit Service | Project Number | Army IR Office |
|--|-----------------------------|---|
| Verification of Commanding General's Travel Compliance with Joint Travel Regulations | Not applicable ¹ | HQ AMC IRAC |
| Calendar Year 2019 (FY 2020) Managers Internal Control Program Assistance | 2020-63-02 | USAR 63 rd Readiness Division IR |
| Ethics Training Process Quick Review | 2021-63-01 | USAR 63 rd Readiness Division IR |
| Leave and Pass at 364 ESC | 2018-06 | USAR 364 th ESC IR |
| Voluntary Leave Transfer Program | 2019-005 | USACE Mobile IR |
| GS-15 Travel Review | 2020-001 | USACE Mobile IR |
| Human Resources Hiring Practices | 2020-013 | USACE Mobile IR |
| Chief Financial Officer Testing—Military Construction In Progress | 2021-CFO-06-5C | USACE Mobile IR |
| Civil and Military Lease Compliance Follow-Up | 2021-011 | USACE Mobile IR |
| Analysis of Unauthorized Commitments & Ratification Process of GPC Program | 19-500-10 | USACE New Orleans IR |
| Chief Financial Officer Validation-September 2020 | 20-500-14 | USACE New Orleans IR |
| Chief Financial Officer Validation-May-November 2021 | 21-500-11 | USACE New Orleans IR |
| Foreign Military Sales (FMS) Obligations | 2020-006 | TACOM IRAC |
| Nonaudit Assessment of the Junior Reserve Officers' Training Corps Modernization Plan and Instructor Pay | 2021-003 | TRADOC IRAC |
| Review of Hurricane Storm Damage Risk Reduction System (HSDRRS) Contracts | 20-500-04 | USACE New Orleans IR |
| Review of Section 408 Standard Operating Procedure | 20-500-06 | USACE New Orleans IR |

¹ The HQ AMC IRAC office did not assign a project number to this nonaudit service because it was the only nonaudit service it performed in 2021.

Source: The DoD OIG.

Use of Computer-Processed Data

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

Prior Coverage

During the last 5 years, the DoD OIG issued one report discussing the peer review of the Army IR Program. Unrestricted DoD OIG reports can be accessed at www.dodig.mil/reports.html/.

DoD OIG

Report No. DODIG-2020-050, "System Review Report on the Army Internal Review Program,"
January 15, 2020

The DoD OIG evaluated whether the Army IR Program's system of quality control in effect for the 3-year period that ended on December 31, 2018, was suitably designed. The DoD OIG also evaluated whether the Army IR Program complied with its quality control system to provide it with reasonable assurance of conformity with professional standards and applicable legal and regulatory requirements in all material respects. The Army IR Program received a peer review rating of *pass with deficiencies*.



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

January 9, 2023

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT AND COMPTROLLER)**

SUBJECT: Letter of Comment on the External Peer Review of the Army Internal Review Program (Report No. DODIG-2023-042)

We have reviewed the system of quality control for the Army Internal Review (IR) Program in effect for the 3-year period that ended on December 31, 2021, and have issued our System Review Report on January 9, 2023, in which the Army IR Program received a rating of *pass with deficiencies*. The findings in this Letter of Comment should be read in conjunction with the System Review Report. The following findings were not considered to be of sufficient significance to affect our opinion in the System Review Report.

Finding 1. Auditors for 9 of 20 Audits Did Not Inquire about Ongoing Investigations or Legal Proceedings Significant to the Audit Objectives

For 9 of the 20 performance audits we reviewed, the auditors at five of the nine Army IR offices did not determine whether any ongoing investigations or legal proceedings that were significant within the context of the audit objectives. The Government Auditing Standards requirements associated with ongoing investigations and legal proceedings are as follows.

- GAS 6.11e of the 2011 revision to the Government Auditing Standards 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.
- GAS 8.27 of the 2018 revision to the Government Auditing Standards states that auditors should ask management of the audited entity whether any investigations or legal proceedings significant to the audit objectives have been initiated or are in process with respect to the period under audit. Furthermore, auditors should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit.
- GAS 8.29 of the 2018 revision to the Government Auditing Standards states that avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

Table 7 lists the nine performance audits where the auditors did not inquire about ongoing investigations or legal proceedings.

Table 7. Performance Audits at the Army IR Offices Where the Auditors Did Not Inquire about Ongoing Investigations or Legal Proceedings

| Audit Title | Project Number | Army IR Office |
|--|----------------|-------------------------------|
| Audit of Oversight of the Explosive Safety Management Program | 2020-03 | HQ AMC IRAC |
| Travel & Government Travel Charge Card (GTCC) Audit | 2019-010 | TACOM IRAC |
| Audit of the Capital Investment Program (CIP) | 2020-003 | TACOM IRAC |
| Audit of Depot Maintenance 50/50 – 4 th Quarter (QTR) FY20 | 2021-001 | TACOM IRAC |
| Audit of the Army Distributed Learning Program | 2020-003 | TRADOC IRAC |
| Audit of the U.S. Army Training and Doctrine Command Lifecycle Replacement Plan for Information Technology | 2020-004 | TRADOC IRAC |
| Management Controls – Peru Project Office Audit | 2019-006 | USACE Mobile IR |
| Catered Meal Program at 364 ESC | 2019-03 | USAR 364 th ESC IR |
| Audit of Oversight of the Explosive Safety Management Program | 2021-02 | HQ AMC IRAC |

Source: The DoD OIG.

USACE IR Took Corrective Action After the Performance Audits Were Performed

In June 2021, after the USACE Mobile IR office conducted its performance audit, the office developed a checklist to use for audits. The checklist includes a section to help remind auditors to ask management of the audited entity whether any investigations or legal proceedings significant to the audit objectives have been initiated or are in process. The auditors are also required to assess the potential impact of the investigative or legal proceedings on the audit. The USACE Mobile IR office actions are adequate to help ensure that the auditors comply with the Government Auditing Standards when performing audits.

Four of the Five of the Army IR Offices Took Corrective Actions During Our Review

The HQ AMC IRAC, TACOM IRAC, TRADOC IRAC, and the USAR 364th ESC IR offices took corrective actions to address this finding during our review.

- In June 2022, the HQ AMC IRAC office incorporated a step in its audit guide template. During the entrance conference, HQ AMC IRAC office representatives stated that auditors will inquire about any investigative or legal proceedings that are initiated or in progress.
- In June 2022, the TRADOC IRAC office modified its background and research working paper template the auditors use during the planning phase of an audit. The TRADOC IRAC office modified the template to include a step for the auditors to

meet with management representatives of the audited entity to determine whether any investigative or legal proceedings were initiated or in-process that relate to the audit objectives.

- In June 2022, the TACOM IRAC office modified its quality control checklist used for audits. The TACOM IRAC office added a section to the checklist to help remind auditors to inquire management of the audited entity whether they are aware of any investigations or legal proceedings significant to the audit objectives that have been initiated or are in process. According to the checklist, the inquiry should occur during the entrance conference with management of the audited entity.
- In May 2022, the USAR 364th ESC IR office updated its quality control checklist template. The office added a step to the checklist to help ensure the auditors inquire management of the audited entity whether any investigations or legal proceedings have been initiated or are in process.

The corrective actions taken by the HQ AMC IRAC, TACOM IRAC, TRADOC IRAC, and USAR 364th ESC IR offices should help to ensure that auditors determine whether investigations or legal proceedings have been initiated or in process that are significant within the context of the audit objectives. However, Army IR Program management needs to take action to ensure that all Army IR auditors comply with GAS 8.27 by documenting the existence of any ongoing investigations and determining their impact on the audit objective.

Recommendation, Management Comments, and Our Response

Recommendation 4

We recommend that the Deputy Assistant Secretary of the Army (Financial Operations and Information) issue a memorandum that reminds Army Internal Review Program auditors to determine and document the existence of any ongoing investigations or legal proceedings that are significant within the context of the audit objectives in accordance with Government Auditing Standards 8.27 and 8.29.

Deputy Assistant Secretary of the Army (Financial Operations and Information) Comments

The Deputy Assistant Secretary of the Army (Financial Operations and Information) agreed with the recommendation. Specifically, the Assistant Secretary of the Army (Financial Management and Comptroller) will issue a policy memorandum to the Army IR offices reiterating the Government Auditing Standards requirement to determine and document the existence of any ongoing investigations or legal proceedings that are significant within the context of the audit objectives. The Deputy Assistant Secretary of the Army (Financial Operations and Information) estimated that the policy memorandum will be issued to the Army IR offices by December 31, 2022.

Our Response

Comments from the Deputy Assistant Secretary of the Army (Financial Operations and Information) addressed the specifics of the recommendation. Therefore, the recommendation is resolved, but will remain open. We will close the recommendation once we verify the Assistant Secretary of the Army (Financial Management and Comptroller) issued a policy memorandum to the Army IR offices reiterating the Government Auditing Standards requirement to determine and document the existence of any ongoing investigations or legal proceedings that are significant within the context of the audit objectives.

Finding 2. Auditors Did Not Complete a Fraud Risk Assessment for 2 of the 20 Audits

For 2 of the 20 performance audits we reviewed, the auditors did not complete a fraud risk assessment. The USACE Mobile IR office conducted the two performance audits. GAS 8.71 of the 2018 revision to the Government Auditing Standards states auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives. The USACE Mobile IR SOP states that in planning the audit, auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives. Additionally, the USACE Mobile IR SOP states that audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud.

The USACE Mobile IR office did not complete a fraud risk assessment for Report No. 2019-006, "Management Controls-Peru Project Office," and Report No. 2020-011, "VA Bed Tower Contract Review."¹⁶ The USACE Mobile IR office Branch Chief stated that the supervisor and auditor assigned to both audits retired before we started our peer review. As a result, the Branch Chief stated that she could not provide a reason why the auditors did not document and assess fraud risk.

Army IR Took Corrective Action After the Performance Audits Were Performed

In June 2021, after the USACE Mobile IR office conducted the two performance audits, the office developed a checklist to use for audits. The checklist includes a section to help remind auditors to perform a fraud risk assessment during the planning phase.

The USACE Mobile IR office actions are adequate to help ensure that the auditors comply with the Government Auditing Standards when performing audits. As a result of these actions, we are not making any recommendations.

¹⁶ Report No. 2019-006, "Management Controls-Peru Project Office," May 1, 2019, and Report No. 2020-011, "VA Bed Tower Contract Review," August 20, 2020.

Finding 3. The Supervisory Review of Working Papers for One Audit Report Was Not Documented Before Report Issuance

For 1 of the 20 performance audits we reviewed, the supervisor did not document his review of the working papers supporting the findings, conclusions, and recommendations before audit report issuance. The HQ IMCOM IR office issued the audit report. GAS 8.87-8.88 of the 2018 revision to the Government Auditing Standards states audit supervision involves reviewing the work performed. Also, GAS 8.135c of the 2018 revision to the Government Auditing Standards states that the supervisory review of the evidence that supports the findings, conclusions, and recommendations should be documented before the audit report is issued.

The HQ IMCOM IR SOP states that auditors must complete a quality control checklist for each audit. The checklist includes a step to verify that a supervisory review of the evidence supporting the findings, conclusions, and recommendations was documented before audit report issuance.

For Report No. NAF 2021-0010, “Audit of Army Banking and Investment Fund,” the supervisor’s review of 10 of 13 fieldwork summary working papers was not documented before audit report issuance.¹⁷ The HQ IMCOM IR office issued the audit report on September 22, 2021. On June 24, 2021, the supervisor had documented his review of 3 of the 13 fieldwork working papers before report issuance. The HQ IMCOM IR office did not provide a reason why the supervisor did not review the remaining 10 working papers.

Supervisory review of working papers is an important quality control that must be documented before audit report issuance. Documentation of supervisory reviews provides evidence that supervisors reviewed the working papers to ensure that the audit work complies with the Government Auditing Standards and the audit results reflected in the working papers are consistent with the findings, conclusions and recommendations presented in the audit report.


The HQ IMCOM IR Office Provided Training During Our Review

In April 2022, the HQ IMCOM IR Director provided working paper review training to all the supervisors in the IR office based on the preliminary results of this review. We reviewed the training material and confirmed the material addressed the supervisory review requirements established in the Government Auditing Standards. In addition, the training covered timeframes in which supervisors should review working papers. For example, supervisors should review a fieldwork working paper no more than five business days after an auditor submits the working paper for review.

¹⁷ Report No. NAF 2021-0010, “Audit of Army Banking and Investment Fund,” September 22, 2021.

The training conducted by the HQ IMCOM IR Director was adequate as a corrective action to help ensure that supervisors review working papers that support findings, conclusions, and recommendations prior to audit report issuance. Therefore, we are not making any recommendations for this finding.

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

 We appreciate the cooperation and assistance we received during the peer review.



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

Attachments

Deputy Assistant Secretary of the Army (Financial Operations and Information)



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FOI

MEMORANDUM FOR Audit Oversight Director for Evaluations, Department of Defense Inspector General, ATTN: Ms. Carol Vogler

SUBJECT: Consolidated Army Response to Department of Defense Inspector General (DoD OIG) Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEV0SO-0055.000)

1. Reference DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEV0SO-0055.000)
2. This memorandum and the following enclosures comprise the consolidated Army response to DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEV0SO-0055.000):
 - a. Synopsis of Responses to Individual Recommendations Included in DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEV0SO-0055.000)
 - b. Memorandum, Chief of Staff, Headquarters, Army Material Command (AMC), November 7, 2022, subject: Command Comments to Department of Defense Inspector General Draft Report – External Peer Review of the Army Internal Review Program
 - c. Memorandum, Deputy Commanding General, U.S. Army Installation Management Command (IMCOM), October 25, 2022, subject: Draft Report, External Peer Review of the Army Internal Review Program (Project 2022-DEV0SO-0055.000)
 - d. Memorandum, Commander, U.S. Army Corps of Engineers, November 8, 2022, subject: US Army Corps of Engineers (USACE) Response to DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program," October 20, 2022, (Project No.: 2022-DEV0SO-0055.000)
3. The Army concurs with the overall rating of "pass with deficiencies" DoD OIG assigned to the Army Internal Review (IR) program in the draft report for its recently conducted External Peer Review of the program. We acknowledge the Deficiencies and Findings described in the draft report and supplementary Letter of Comment and will work to ensure the Army implements each of the Recommendations included in these publications. Detailed responses to the draft report and Letter of Comment Recommendations are included in the four enclosures to this memorandum.

Deputy Assistant Secretary of the Army (Financial Operations and Information) (cont'd)

SUBJECT: Consolidated Army Response to DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEVOSO-0055.000)

4. We have reviewed the External Peer Review draft report and Letter of Comment in detail and did not identify any specific information within these publications which we believe is exempt from release to the Public and/or to Congress. We also do not believe that any specific information within the consolidated Army response to the draft report (including the four enclosures to the response) is exempt from release.

5. We appreciate the hard work and conscientiousness exhibited by your staff throughout the external peer review process and look forward to working with you again during the next DoD OIG peer review of the Army IR program.

6. The Office of the Assistant Secretary of the Army (Financial Management & Comptroller) (OASA (FM&C)) point of contact for this action is [REDACTED]

RAMSEY.MICHAEL.
ALLEN [REDACTED]

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RAMSEY.MICHAEL.ALLEN [REDACTED]
Date: 2022.11.15 16:23:27 -05'00'

Michael Ramsey
Deputy Assistant Secretary of the Army
Financial Operations and Information

Deputy Assistant Secretary of the Army (Financial Operations and Information) (cont'd)

Enclosure: Synopsis of Responses to Individual Recommendations Included in DoD OIG Draft Report, "External Peer Review of the Army Internal Review Program" (Project No. D2022-DEV0SO-0055.000)

Recommendation 1: *We recommend that the Headquarters, U.S. Army Installation Management Command Internal Review Director provide training to the audit staff to improve their understanding and knowledge of Government Auditing Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements.*

Army Response: Concur. The Director, Headquarters U.S. Army Installation Management Command (IMCOM) Internal Review, will provide training to the audit staff to improve their understanding and knowledge of Government Auditing Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements. The IMCOM IR Director anticipates implementation of this recommendation to occur no later than April 30, 2023.

Recommendation 2: *We recommend that the Deputy Assistant Secretary of the Army (Financial Operations and Information) develop a process for the monitoring of quality within the Army Internal Review offices that is appropriate for the size of the audit organization in accordance with Government Auditing Standard 5.43-5.44.*

Army Response: Concur. ASA-FM&C concurs with the recommendation and will develop a formal process for the monitoring of quality within the Army Internal Review (IR) program that is appropriate for the size and scope of the program. Due to the anticipated complexity of this new formal process, we anticipate for implementation of this recommendation to occur no later than September 30, 2023.

Recommendation 3: *We recommend that the Headquarters, U.S. Army Installation Management Command Internal Review Director develop a plan for the auditors to obtain training on performing procedures to monitor its system of quality control in accordance with Government Auditing Standard 5.43.*

Army Response: Concur. The Director, Headquarters U.S. Army IMCOM Internal Review, will provide training to all staff that will focus on the proper use and application of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guides for performance and attestation engagements to ensure compliance with Government Auditing Standards and American Institute of Certified Public Accountants reporting standards. The IMCOM IR Director anticipates implementation of this recommendation to occur no later than April 30, 2023.

Deputy Assistant Secretary of the Army (Financial Operations and Information) (cont'd)

Recommendation 4: *We recommend that the Deputy Assistant Secretary of the Army (Financial Operations and Information) issue a memorandum that reminds Army Internal Review Program auditors to determine and document the existence of any ongoing investigations or legal proceedings that are significant within the context of the audit objectives in accordance with Government Auditing Standards 8.27 and 8.29.*

Army Response: Concur. ASA-FM&C concurs with the recommendation and will issue a policy memorandum to the Army IR Offices reiterating the Government Auditing Standards requirement to determine and document the existence of any ongoing investigations or legal proceedings that are significant within the context of the audit objectives. Anticipated implementation of this recommendation is no later than December 31, 2022.

U.S. Army Materiel Command



DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898

AMIR

MEMORANDUM THRU Deputy Assistant Secretary of the Army (Financial Operations),
109 Army Pentagon, Washington, DC 20310-0109

MEMORANDUM FOR Inspector General, Department of Defense, Audit Oversight, 4800
Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments to Department of Defense Inspector General Draft
Report – External Peer Review of the Army Internal Review Program

1. The U.S. Army Materiel Command has reviewed the subject draft report and endorses
the report findings and responses from the U.S. Army Installation Management Command
to its recommendations. Specific comments are included at the enclosure.

2. The U.S. Army Materiel Command point of contact is [REDACTED]

Encl

DUZZNY, WALTER
MICHAEL [REDACTED]
Digitally signed by
DUZZNY, WALTER MICHAEL
Date: 2022.11.07 09:29:26 -06'00'

WALTER M. DUZZNY
Major General, USA
Chief of Staff

U.S. Army Installation Management Command



DEPARTMENT OF THE ARMY
US ARMY INSTALLATION MANAGEMENT COMMAND
2405 GUN SHED ROAD
JOINT BASE SAN ANTONIO FORT SAM HOUSTON, TX 78234-1223

AMIM-IR (36-2c2)

25 October 2022

MEMORANDUM THRU Commander, U.S. Army Materiel Command, 4400 Martin Road,
Redstone Arsenal, AL 35898-5000

FOR THE Inspector General, Department of Defense, Audit Oversight, 4800 Mark
Center Drive, Alexandria, VA 22350-1500

SUBJECT: Draft Report, External Peer Review of the Army Internal Review Program
(Project 2022-DEV0SO-0055.000)

1. The U.S. Army Installation Management Command (IMCOM) response to the
subject draft report is enclosed. IMCOM concurs with Recommendations 1 and 3.

2. The IMCOM Internal Review Point of Contact for this action is [REDACTED]

Encl
as

TICKNER.THOMAS, Digitally signed by
JOHN TICKNER.THOMAS,JOHN
Date: 2022.10.25 16:56:41 -0500

THOMAS J. TICKNER
Major General, USA
Deputy Commanding General

U.S. Army Installation Management Command (cont'd)

DoDIG Draft Report
External Peer Review of the Army Internal Review Program
(Project 2022-DEV0SO-0055.000)

Command Reply for Recommendations 1 and 3

Recommendation 1

We recommend the Headquarters, U.S. Army Installation Management Command Internal Review Director provide training to the audit staff to improve their understanding and knowledge of Government Auditing Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements.

IMCOM Comments to Recommendation 1

IMCOM Concurs. The Director, Headquarters U.S. Army IMCOM Internal Review, will provide training to the audit staff to improve their understanding and knowledge of Government Auditing Standards and American Institute of Certified Public Accountants standards for reporting on agreed-upon procedures engagements.

Estimated completion date: 30 April 2023

Recommendation 3

We recommend the Headquarters, U.S. Army Installation Management Command Internal Review Director develop a plan for the auditors to obtain training on performing procedures to monitor its system of quality control in accordance with Government Auditing Standard 5.43.

IMCOM Comments to Recommendation 3

IMCOM Concurs. The Director, Headquarters U.S. Army IMCOM Internal Review, will provide training to all staff that will focus on the proper use and application of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guides for performance and attestation engagements to ensure compliance with Government Auditing Standards and American Institute of Certified Public Accountants reporting standards.

Estimated completion date: 30 April 2023

Enclosure

U.S. Army Corps of Engineers



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

CEIR (1100A)

8 Nov 2022

MEMORANDUM FOR Department of Defense Inspector General (DoD OIG)
(ATTN: AO Director), 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: US Army Corps of Engineers (USACE) Response to DoD OIG Draft Report,
"External Peer Review of the Army Internal Review Program," October 20, 2022,
(Project No.: D2022-DEV0SO-0055.000)

1. USACE Internal Review (IR) auditors are an integral part of each USACE commanders' personal staff and primary tools for our commanders to accomplish USACE missions and maintain effective stewardship of resources.
2. I value DoD OIG's independent review. My team considers your collaboration and communication for this project a best practice that helps our IR teams sustain effective internal oversight and focus improvements for the USACE IR system of quality control.
3. While there are no recommendations to USACE, I concur with the DoD OIG draft report and findings for USACE, including an internally-identified and self-corrected finding that one USACE IR Office did not document their monitoring procedures performed for two years in annual summaries as required by Government Auditing Standards.
4. I greatly appreciate DoD OIG's acknowledgment that the sampled USACE IR offices identified and corrected deficiencies before the DoD OIG peer review.
5. USACE strives to deliver innovative and quality solutions on time within budget. I am grateful that our IR community embraces that philosophy and recognizes that quality control is essential for delivering value-added IR services for USACE commanders.
6. My point of contact is [REDACTED]

A handwritten signature in black ink, reading "Scott A. Spellmon".

SCOTT A. SPELLMON
Lieutenant General, USA
Commanding

Acronyms and Abbreviations

| | |
|---------------------|--|
| AICPA | American Institute of Certified Public Accountants |
| AMC | Army Materiel Command |
| ASA FM&C | Assistant Secretary of the Army (Financial Management and Comptroller) |
| AUP | Agreed-Upon Procedures |
| CIGIE | Council of the Inspectors General on Integrity and Efficiency |
| ESC | Expeditionary Sustainment Command |
| GAS | Government Auditing Standards |
| IMCOM | Installation Management Command |
| IR | Internal Review |
| IRAC | Internal Review and Audit Compliance |
| SOP | Standard Operating Procedures |
| SSAE | Statements on Standards for Attestation Engagements |
| TACOM | Tank-automotive and Armaments Command |
| TRADOC | Training and Doctrine Command |
| USAR | U.S. Army Reserve |
| USACE | U.S. Army Corps of Engineers |



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reports or activities, please contact us:**

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