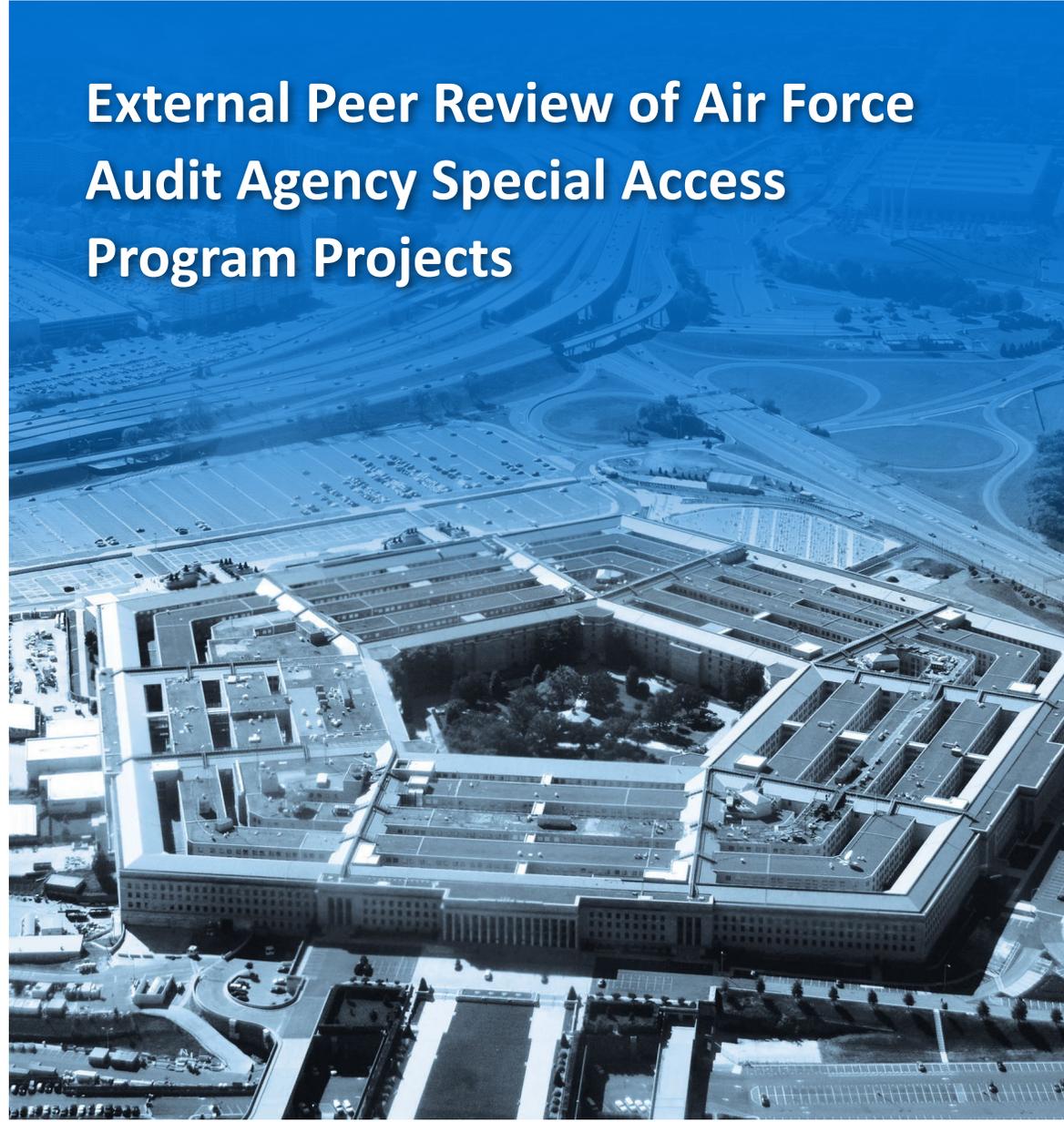


INSPECTOR GENERAL

U.S. Department of Defense

APRIL 18, 2024



External Peer Review of Air Force Audit Agency Special Access Program Projects

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





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

April 18, 2024

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: External Peer Review of Air Force Audit Agency Special Access Program Projects
(Report No. DODIG-2024-076)

This final report provides the results of the DoD Office of Inspector General's external peer review on the Air Force Audit Agency Special Access Program projects. We previously provided a copy of the draft report and requested written comments on the recommendation. We considered management's comments in finalizing the report and included them in the report. The Auditor General of the Air Force Audit Agency took action to address the recommendation in this report, and we consider the recommendation closed.

We appreciate the cooperation and assistance we received during the peer review. If you have any questions, please contact [REDACTED].

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned below the text "FOR THE INSPECTOR GENERAL:". The signature is stylized and cursive.

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





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

April 18, 2024

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: System Review Report on the External Peer Review of Air Force Audit Agency
Special Access Program Projects (Report No. DODIG-2024-076)

We reviewed the system of quality control for Air Force Audit Agency Special Access Program (SAP) projects in effect for the 3-year period that ended on December 31, 2022. A system of quality control encompasses the Air Force Audit Agency's structure, the adopted policies, and established procedures to provide it with reasonable assurance of conforming in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. The elements of quality control are described in Government Auditing Standards.

In our opinion, the system of quality control for Air Force Audit Agency SAP projects in effect for the 3-year period that ended on December 31, 2022, has been suitably designed and complied with to provide it with reasonable assurance of performing and reporting in conformity with Government Auditing Standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The Air Force Audit Agency has received an external peer review rating of *pass* for its SAP projects.

Letter of Comment

We have issued a Letter of Comment dated April 18, 2024, that describes a finding 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 Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General," March 2020 revision.

Air Force Audit Agency auditors who perform SAP projects are assigned to the Air Force Audit Agency's Security and Special Programs Audits Directorate. We interviewed auditors assigned to the Security and Special Programs Audits Directorate to obtain an understanding of the nature of the Air Force Audit Agency and the design of its system of quality control to assess the risks implicit in its audit function for SAP projects. Based on our assessment, we nonstatistically selected 2 of 20 SAP performance audits and 1 of 8 SAP attestation engagements that the Air Force Audit Agency completed from January 1, 2020, through December 31, 2022.

We tested the performance audits and attestation engagement for conformity with Government Auditing Standards and the Air Force Audit Agency's system of quality control. The 3 projects we selected represent a reasonable cross-section of the universe of 28 SAP projects conducted by the Air Force Audit Agency during the 3-year period that ended on December 31, 2022.

In performing our peer review, we tested for compliance with Air Force Audit Agency quality control policies and procedures to the extent that we considered appropriate. The Army Audit Agency (AAA) performed a peer review of the system of quality control for Air Force Audit Agency non-SAP projects for the 3-year period that ended on December 31, 2022. As part of AAA's peer review of Air Force Audit Agency non-SAP projects, AAA reviewed Air Force Audit Agency quality control policies and procedures applicable to both SAP and non-SAP projects. We performed tests of AAA's review of the quality control policies and procedures and determined that we could rely on its conclusions.

We also performed tests for compliance with the Air Force Audit Agency quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the Air Force Audit Agency's policies and procedures on the three selected projects. We based our review on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

On March 25, 2024, we held an exit conference with Air Force Audit Agency 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 our scope and methodology, including our basis for selecting the three SAP projects.

Responsibilities and Limitations

The Air Force Audit Agency is responsible for establishing and maintaining a system of quality control designed to provide it with reasonable assurance that the organization and its personnel comply in all material respects with Government Auditing Standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control covering Air Force Audit Agency SAP projects and the Air Force Audit Agency's compliance based on our review.

Inherent limitations exist in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. The projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

FOR THE INSPECTOR GENERAL:

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

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

Enclosure:
As stated

Enclosure

Scope and Methodology

We conducted this peer review from March 2023 through March 2024 in accordance with Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) “Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General.” The standards and guide require that we obtain an understanding of the audit organization’s system of quality control and conclude whether:

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

We also conducted this peer review in accordance with the “Quality Standards for Inspection and Evaluation,” published in December 2020 by CIGIE. Those standards require that we adequately plan the peer review to ensure that objectives are met and that we perform the peer review to obtain sufficient and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendation.

This peer review covered the 3-year period from January 1, 2020, through December 31, 2022. We tested Special Access Program (SAP) projects for compliance with the Air Force Audit Agency’s system of quality control to the extent we considered appropriate. We selected SAP projects that would provide a reasonable cross-section of work the Air Force Audit Agency Security and Special Programs Audits Directorate completed during the 3-year review period. As detailed in the following sections, we used the appendixes and procedures in the CIGIE Guide to conduct this peer review.

Policies and Procedures (CIGIE Guide Appendix A)

The Air Force Audit Agency uses the same audit policies and procedures for both SAP and non-SAP projects. The Army Audit Agency (AAA) reviewed the Air Force Audit Agency’s policies and procedures to determine whether the policies and procedures complied with Government Auditing Standards. AAA requested that the Air Force Audit Agency complete Column 1 of CIGIE Guide Appendix A, “Policies and Procedures,” and provide a copy of its relevant policies and procedures. In Column 2 of CIGIE Guide Appendix A, AAA recorded its conclusions on the policies and procedures of the Air Force Audit Agency for compliance with Government Auditing Standards. We performed tests of AAA’s review of Air Force Audit Agency policies and procedures to place reliance on the AAA review conclusions. AAA and we found that the policies and procedures were adequate and complied with Government Auditing Standards.

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

Using the CIGIE Guide's Appendix B, we performed tests of Air Force Audit Agency SAP projects to determine if the auditors complied with the Government Auditing Standards' general standards. The general standards consist of independence, competence and continuing professional education, and quality control and peer review.

Independence

We reviewed Air Force Audit Agency independence records for the auditors assigned to the three SAP projects we reviewed. For one performance audit, the working papers did not include documentation of independence considerations for five of the seven assigned auditors. As a result, the working papers included no evidence that the auditors had verified their independence from the audited entity. However, this noncompliance did not rise to the level of a deficiency as defined in the CIGIE Guide. See the Finding in the Letter of Comment for additional details.

Competence and Continuing Professional Education

We interviewed 5 of the 12 audit staff assigned to the three projects we selected, and still employed by the Air Force Audit Agency as of September 10, 2023. In selecting the five audit staff, we chose a combination of supervisors and auditors that would provide a reasonable cross-section of the audit staff assigned to the three projects. We interviewed the audit staff to determine their understanding of, and compliance with, Government Auditing Standards and Air Force Audit Agency quality control policies and procedures. Based on the interview results, we found that the audit staff are competent and have an adequate understanding of Government Auditing Standards and Air Force Audit Agency policies and procedures.

We also nonstatistically selected a sample of 3 of the 12 audit staff assigned to the three projects to determine whether the auditors obtained the continuing professional education (CPE) hours required by Government Auditing Standards. We reviewed the CPE documentation for the last completed 2-year CPE reporting period, which covered 2021 and 2022. We determined that the three auditors met CPE requirements. Also, AAA reviewed the CPE documentation for two additional auditors assigned to the Security and Special Programs Audits Directorate as part of its review of Air Force Audit Agency non-SAP projects. AAA also determined that the two auditors met the CPE requirements.

Quality Control and Peer Review

We reviewed one of nine internal quality reviews of SAP projects that the Air Force Audit Agency completed during the 3-year review period to determine whether the agency:

- performed monitoring procedures of its SAP projects 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 and with recommendations for corrective action.

The Air Force Audit Agency complied with Government Auditing Standards for monitoring of quality procedures.

Additionally, we determined that the Air Force Audit Agency complied with Government Auditing Standards for peer reviews of its SAP projects by obtaining a peer review once every 3 years. See the Prior Coverage section in this Enclosure for additional information.

Checklist for Agreed-Upon Procedures Engagements Performed by the Office of Inspector General (CIGIE Appendix D3)

From January 1, 2020, through December 31, 2022, the Air Force Audit Agency completed eight SAP attestation engagements, all of which were agreed-upon procedures (AUP) engagements. We nonstatistically selected one AUP engagement for our review. We reviewed the selected AUP engagement to assess compliance with Government Auditing Standards and American Institute of Certified Public Accountants (AICPA) standards using Appendix D3 of the CIGIE Guide. We determined that the Air Force Audit Agency auditors complied with Government Auditing Standards and AICPA standards in performing the AUP engagement.

Checklist for Performance Audits Performed by the Office of Inspector General (CIGIE Guide Appendix E)

From January 1, 2020, through December 31, 2022, the Air Force Audit Agency completed 20 SAP performance audits. We nonstatistically selected two performance audits for our review. We chose audits that would provide a reasonable cross-section of the SAP performance audits that the Air Force Audit Agency completed. For example, we chose SAP performance audits that resulted in the selection of various audit supervisors and auditors. We reviewed the performance audits for compliance with Government Auditing Standards using Appendix E of the CIGIE Guide. We determined that the Air Force Audit Agency did not comply with Government Auditing Standards for independence in performing one of the two performance audits. However, this noncompliance did not rise to the level of a deficiency defined in the CIGIE Guide. See the Finding in the Letter of Comment for additional details of the noncompliance.

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 and AAA issued a total of four reports discussing external peer reviews of the Air Force Audit Agency. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>. Unrestricted AAA reports can be accessed from .mil and gao.gov domains at <https://www.army.mil/aaa>.

DoD OIG

Report No. DODIG-2021-079, “Summary System Review Report on the External Peer Review of the Air Force Audit Agency,” May 5, 2021

The DoD OIG compiled the results of the AAA peer review of Air Force Audit Agency non-SAP projects and the DoD OIG peer review of Air Force Audit Agency SAP projects to make a summary assessment on the Air Force Audit Agency’s system of quality control for the 3-year period ended December 31, 2019. The DoD OIG issued a summary peer review rating of *pass* for the Air Force Audit Agency.

Report No. DODIG-2021-060, “System Review Report on the External Peer Review of the Air Force Audit Agency’s Special Access Program Audits,” March 8, 2021

The DoD OIG evaluated whether the Air Force Audit Agency’s system of quality control for SAP projects in effect for the 3-year period ended December 31, 2019, was suitably designed and whether the Air Force Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. The DoD OIG issued a peer review rating of *pass* for Air Force Audit Agency SAP projects.

The DoD OIG also issued a Letter of Comment on March 8, 2021, which identified two findings involving audit documentation and planning that we did not consider significant enough to affect the opinion expressed in the March 8, 2021 System Review Report.

Army Audit Agency

Report No. A-2023-0079-FIZ, “System Review Report on the External Peer Review of the Air Force Audit Agency,” September 29, 2023

AAA evaluated whether the Air Force Audit Agency’s system of quality control in effect for the 3-year period ended December 31, 2022, was suitably designed and whether the Air Force Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. AAA issued a peer review rating of *pass* for the Air Force Audit Agency’s non-SAP projects.

AAA also issued Report No. A-2023-0080-FIZ, "Letter of Comment on the External Peer Review of the Air Force Audit Agency," September 29, 2023. AAA identified three findings involving continuing professional education, independence documentation, and supervisory reviews that AAA did not consider significant enough to affect the opinion expressed in the September 29, 2023 System Review Report.

Report No. A-2021-0003-BOZ, "System Review Report on the External Peer Review of the Air Force Audit Agency," December 7, 2020

AAA evaluated whether the Air Force Audit Agency's system of quality control in effect for the 3-year period ended December 31, 2019, was suitably designed and whether the Air Force Audit Agency complied with its quality control system to provide it with reasonable assurance of conformity with the applicable professional standards. AAA issued a peer review rating of *pass* for the Air Force Audit Agency's non-SAP projects.

AAA also issued Report No. A-2021-0004-BOZ, "Letter of Comment on the External Peer Review of the Air Force Audit Agency," December 7, 2020. AAA identified four findings involving quality assurance, continuing professional education, planning, and audit documentation that AAA did not consider significant enough to affect the opinion expressed in the December 7, 2020 System Review Report.



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

April 18, 2024

MEMORANDUM FOR AUDITOR GENERAL, AIR FORCE AUDIT AGENCY

SUBJECT: Letter of Comment on the External Peer Review of Air Force Audit Agency Special Access Program Projects (Report No. DODIG-2024-076)

We have reviewed the system of quality control for the Air Force Audit Agency Special Access Program (SAP) projects in effect for the 3-year period that ended on December 31, 2022, and have issued our System Review Report on April 18, 2024, in which the Air Force Audit Agency received a rating of *pass* for its SAP projects. The finding in this Letter of Comment should be read in conjunction with the System Review Report. The finding was not of sufficient significance to affect the opinion rendered in the System Review Report. We considered the nature, pervasiveness, and relative importance of the finding and the extent of compliance with Government Auditing Standards taken as a whole. We determined that the finding does not rise to the level of a deficiency as defined in the Council of the Inspectors General on Integrity and Efficiency (CIGIE), "Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General."¹

Finding. One of Two Performance Audits Did Not Include Documentation of Independence Considerations

For one of the two SAP performance audits we reviewed, the auditors did not include documentation of independence considerations for five of the seven assigned auditors. As a result, the working papers did not include sufficient evidence that the auditors had verified their independence from the audited entity.

Government Auditing Standard 3.18 states that in all matters relating to the engagement, auditors must be independent from an audited entity. In addition, Government Auditing Standard 3.107 states that while insufficient documentation of an auditor's compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the Government Auditing Standards quality control and assurance requirements. Auditors should also document threats to independence that require the application of safeguards, along with the safeguards they applied. Further, Government Auditing Standard 3.108 states that documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions on compliance with independence requirements.

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 deficiency as one or more findings that could create a situation in which the audit organization would not have reasonable assurance of performing and reporting in conformity with applicable professional standards in one or more important respects.

The Air Force Audit Agency Audit Service Execution Playbook includes the following independence requirements.

- **Section 2.4.** Auditors will review annual independence statements for all team members assigned to a project to identify if independence threats exist and to apply safeguards as required.
- **Section 2.4.3.** At a minimum, auditors should document in their working papers that independence statements were reviewed for each audit team member; whether threats were identified; and if safeguards were applied, as applicable.

All seven auditors assigned to the project completed an annual Statement of Independence. However, for five auditors, the working papers included no evidence that the auditors had complied with the requirements in Government Auditing Standard 3.107 and the Air Force Audit Agency Audit Service Execution Playbook, sections 2.4 and 2.4.3. Specifically, in their working papers, the auditors did not document that the independence statements were reviewed for the five auditors to ascertain whether threats were identified, and if any necessary safeguards were applied.

In addition, although one auditor had identified a familiarity threat in their annual Statement of Independence, the working papers included no evidence that the auditors had assessed the threat and applied safeguards, as applicable, in accordance with the Air Force Audit Agency Audit Service Execution Playbook, Section 2.4.3.²

Air Force Audit Agency representatives told us that the five auditors were added to the project after it began. They also stated that they had assessed the independence considerations, but it was an oversight that the auditors did not document independence assessment considerations in the working papers.

Additionally, during our follow-up discussions with AFAA, we verified that the auditors took steps during the audit that mitigated the familiarity threat identified in the auditor's annual Statement of Independence. Finally, we did not identify any evidence within the audit documentation of actual independence issues among the auditors.

Auditors must adequately document independence considerations because it helps to ensure compliance with the quality control and assurance requirements in Government Auditing Standards.

² Government Auditing Standard 3.30d defines a familiarity threat as a threat that a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective.

Recommendation

Recommendation 1

We recommend that the Auditor General of the Air Force Audit Agency issue a memorandum that reminds the audit staff of the Air Force Audit Agency's Security and Special Programs Audits Directorate of the requirement to document independence considerations in accordance with Government Auditing Standard 3.107 and the Air Force Audit Agency Audit Service Execution Playbook, including audit staff added to a project after it begins.

Auditor General of the Air Force Audit Agency Comments

The Auditor General agreed with the recommendation. Specifically, the Auditor General issued a memorandum to the Air Force Audit Agency Security and Special Programs Audits Directorate on April 4, 2024, emphasizing the requirements to assess and document the independence of the audit staff. The memorandum reminds the audit staff to comply with Air Force Audit Agency Instruction 65-300, "Audit Service," Memorandum 19-09, "Updated Independence Statement Procedures," and the Audit Service Execution Playbook, when they assess and document the independence considerations.

Our Response

Comments from the Auditor General addressed the specifics of the recommendation. We reviewed the April 4, 2024, memorandum that the Auditor General issued to Air Force Audit Agency's Security and Special Programs Audits Directorate. We verified that the memorandum reminds the audit staff of the requirement to document independence considerations in accordance with Government Auditing Standard 3.107 and the Audit Service Execution Playbook. The memorandum meets the intent of our recommendation. Therefore, we are closing the recommendation.

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

FOR THE INSPECTOR GENERAL:



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

Management Comments

Auditor General of the Air Force Audit Agency



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE SECRETARY

4 April 2024

MEMORANDUM FOR DOD/IG

FROM: SAF/AG
1120 Air Force Pentagon, Suite 4E204
Washington DC, 20330

SUBJECT: Management Response, Draft Letter of Comments on the External Peer Review of
Air Force Audit Agency Special Access Program Projects, Project No. D2023-
DEVOSO-0098.000

1. We reviewed the draft Letter of Comments and agree with the cited result and recommendation. Our response to the recommendation is outlined in the attached management comments document.
2. We appreciate the courtesies and cooperation extended during the review. If you have any questions, please contact [REDACTED]

A handwritten signature in black ink, appearing to read "Doug Bennett", is written over a horizontal line.

DOUGLAS M. BENNETT
Auditor General

Attachments:

1. Management Comments
2. Memo to FDZ, 4 April 2024

Auditor General of the Air Force Audit Agency (cont'd)

Attachment I
Management Comments
External Peer Review of AFAA Security and Special Access Program Audits

The Air Force Audit Agency (AFAA) appreciates the observations provided by the review team in the Letter of Comments and concurs with the finding and recommendation. The Auditor General addressed the findings on 4 April 2024. Please refer to the attached memorandum for corrective action documentation.

Finding. One of Two Performance Audits Did Not Include Documentation of Independence Considerations

Recommendation 1. We recommend that the Auditor General of the Air Force Audit Agency issue a memorandum that reminds the audit staff of the Air Force Audit Agency's Security and Special Programs Audits Directorate of the requirement to document independence considerations in accordance with Government Auditing Standard 3.107 and the Air Force Audit Service Execution Playbook, including audit staff added to a project after it begins.

AFAA Response: Agree. The Auditor General issued a memorandum to Air Force Audit Agency's Security and Special Programs Audits Directorate on 4 April 2024 to serve as a reminder to follow AFAAI 65-300, *Audit Service*, 31 July 2023, Memorandum 19-09, *Updated Independence Statement Procedures*, 1 May 2019, and the *Audit Services Execution Playbook*, 19 March 2024, when assessing and documenting independence of auditors. (Closed. 4 April 2024, See Attachment 2).

Acronyms and Abbreviations

- AICPA** American Institute of Certified Public Accountants
- AAA** Army Audit Agency
- AUP** Agreed-Upon Procedures
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- CPE** Continuing Professional Education
- SAP** Special Access Program

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U.S. DEPARTMENT OF DEFENSE

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