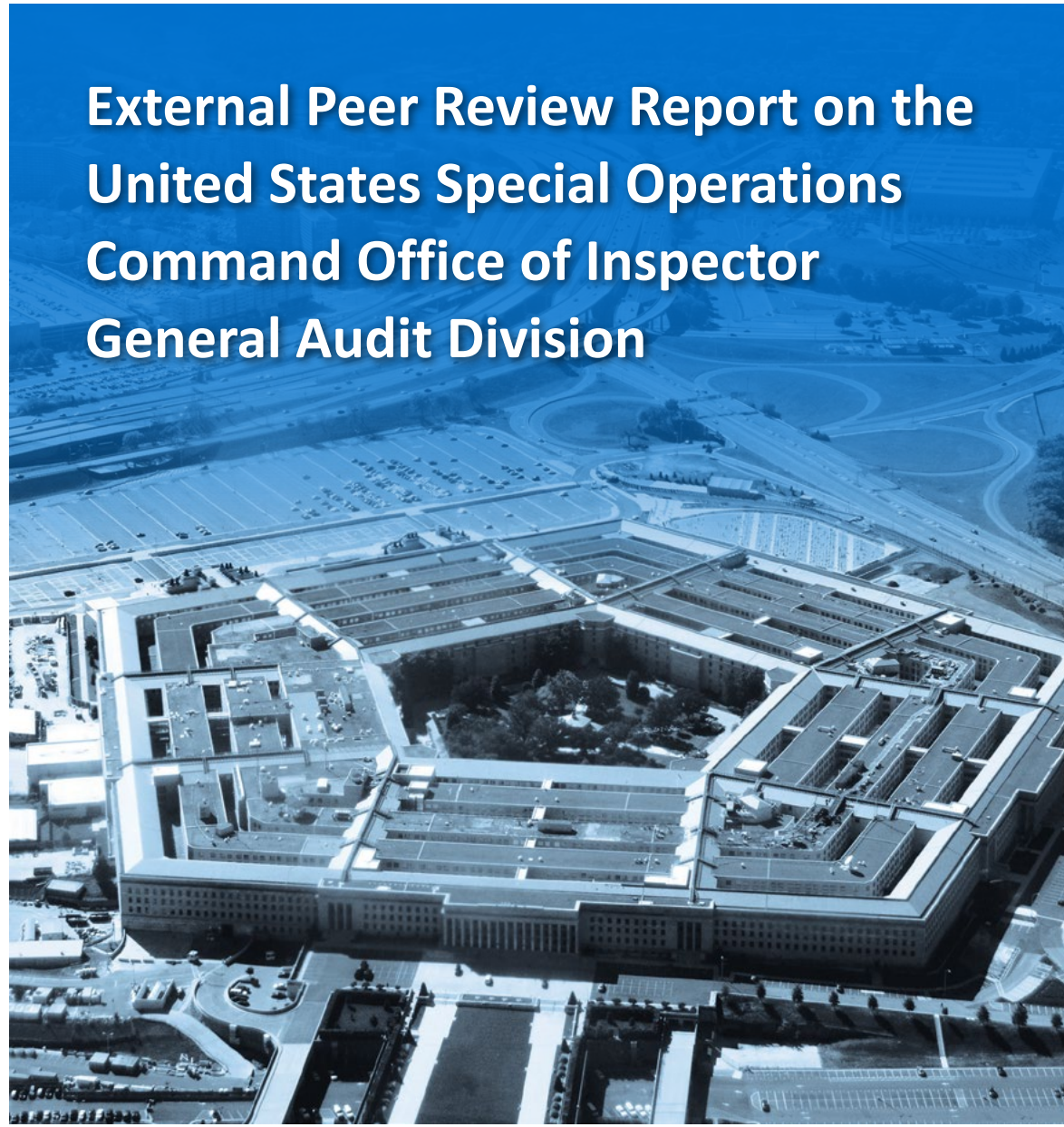




# INSPECTOR GENERAL

*U.S. Department of Defense*

AUGUST 15, 2016



## External Peer Review Report on the United States Special Operations Command Office of Inspector General Audit Division

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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

August 15, 2016

MEMORANDUM FOR UNITED STATES SPECIAL OPERATIONS COMMAND,  
INSPECTOR GENERAL

SUBJECT: External Peer Review Report on the United States Special Operations Command  
Office of Inspector General Audit Division (Report No. DODIG-2016-122)

Attached is the External Peer Review Report and the Letter of Comments on the United States Special Operations Command Office of Inspector General that we conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. Enclosure 2 contains your comments on the draft Letter of Comments.

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

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

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

Attachments:  
As stated



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

August 15, 2016

**MEMORANDUM FOR UNITED STATES SPECIAL OPERATIONS COMMAND,  
INSPECTOR GENERAL**

**SUBJECT: System Review Report (Report No. DODIG-2016-122)**

We have reviewed the system of quality control for the audit organization of the United States Special Operations Command (USSOCOM) Office of the Inspector General (OIG) in effect for the year ended December 31, 2015. A system of quality control encompasses the USSOCOM OIG's organizational structure, policies, and procedures to provide it with reasonable assurance of conforming to *Government Auditing Standards*. The elements of quality control are described in *Government Auditing Standards*. The USSOCOM OIG's audit organization is responsible for establishing and maintaining a system of quality control that is designed to provide it with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion, based on our review, on the design of the system of quality and the USSOCOM OIG audit organization's compliance with standards and requirements.

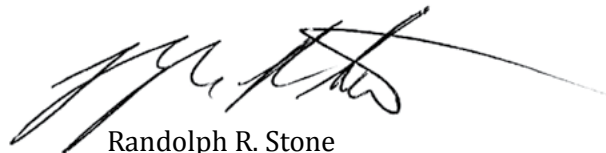
We conducted our review in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed audit personnel and obtained an understanding of the nature of the USSOCOM OIG's audit organization and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and administrative files to test for conformity with professional standards and compliance with the USSOCOM OIG's audit organization's system of quality control. The audits selected represented a reasonable cross section of the audit organization. Before concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with USSOCOM OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the audit organization. In addition, we tested auditors' compliance with the USSOCOM OIG audit organization's quality control policies and procedures to the extent that we considered appropriate. These tests covered the application of the USSOCOM OIG's audit policies and

procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

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

Enclosure 1 to this report identifies the USSOCOM OIG audit office that we visited and the audits that we reviewed. In our opinion, the system of quality control for the USSOCOM OIG's audit organization in effect for the year ended December 31, 2015, was suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The USSOCOM OIG's audit organization has received an External Peer Review rating of *pass*. As is customary, we have issued a letter of comments dated August 15, 2016, that sets forth findings that were not considered significant enough to affect our opinion expressed in this report.



Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

Enclosure:  
As stated

# Enclosure 1

## Scope and Methodology

We tested compliance with the system of quality control to the extent we considered appropriate. These tests included a review of four of the five audit reports issued from January 1, 2015, to December 31, 2015. Table 1 lists the audit reports reviewed. In addition, we tested compliance for continuing professional education hours. We visited the USSOCOM OIG's audit organization at MacDill Air Force Base, Florida. We interviewed personnel to determine their understanding of and compliance with quality control policies and procedures. Finally, we reviewed the USSOCOM OIG's audit policies and procedures that were published on April 17, 2013, and November 24, 2014. The USSOCOM OIG's audit organization did not perform any nonaudit services during the period of our review so we did not review any nonaudit services.

*Table 1. Reviewed Audits Performed by USSOCOM OIG's Audit Organization*

Audit Title	Report Number	Date	Type of Review
Follow-up Audit of the Time and Attendance Program	16-01	November 9, 2015	Performance
Audit of Joint Combined Exchange Training (JCET) Program at Naval Special Warfare Command	15-05	May 4, 2015	Performance
Audit of the Special Operations Command-Central Official Representation Funds	15-04	April 7, 2015	Performance
Audit of the Commander's Travel	15-03	February 12, 2015	Performance



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

August 15, 2016

MEMORANDUM FOR UNITED STATES SPECIAL OPERATIONS COMMAND,  
INSPECTOR GENERAL

SUBJECT: Letter of Comments (Report No. DODIG-2016-122)

We have reviewed the system of quality control for the United States Special Operations Command (USSOCOM) Office of the Inspector General's (OIG) audit organization in effect for the year ended December 31, 2015, in which the USSOCOM OIG's audit organization received a rating of pass. The system review report should be read in conjunction with the comments in this letter, which we considered in determining our opinion. The findings described below were not considered significant enough to affect the opinion expressed in the report.

## **USSOCOM OIG Audit Division**

### ***Finding 1. The USSOCOM OIG's Audit Policies Do Not Address Threats to Independence After Report Issuance***

Government Auditing Standards (GAS) 3.26 states that if a threat to independence is initially identified after the auditor's report is issued, the auditor should evaluate the threat's impact on the audit and on GAS compliance. The USSOCOM OIG's audit policy, SOIG-A Policy 2013-1 "Independence Statement Procedures," April 17, 2013, discusses applying the conceptual framework to address threats to independence, but does not specifically identify procedures for threats to independence after the report is issued.

The USSOCOM OIG's audit policies do not contain procedures to address threats to independence after an audit report is issued. The USSOCOM OIG had not had any instances of a threat to independence after report issuance, but it should have a policy to address threats to independence after report issuance to comply with auditing standards.

#### ***Recommendation 1***

The USSOCOM OIG audit manager should update audit policies to include procedures for evaluating threats to independence after the audit report is issued.

#### ***Management Comments***

The USSOCOM Inspector General disagreed, citing Department of Defense Office of Inspector General Report No. DODIG-2014-089, "Implementation of 2011 Generally Accepted Government Standards at the DoD Audit Organizations," June 30, 2014.

The report stated that USSOCOM did not have internal audit policies implementing the independence standards in the December 2011 Generally Accepted Government Auditing Standards. However, during the Department of Defense Office of Inspector General's review, USSOCOM issued new internal audit policies on April 17, 2013, and these policies adequately implement the independence standards in the December 2011 Generally Accepted Government Auditing Standards.

### *Our Response*

We agree with USSOCOM OIG that our earlier review of the policy did not identify this specific deficiency and that USSOCOM has a policy in place. We recommended in our earlier review that the USSOCOM OIG audit organization create internal policies implementing the December 2011 generally accepted government auditing standards independence standards. In response to our recommendation, USSOCOM OIG agreed and its Audit Division updated its independence policies and included this policy in its updated Standard Operating Procedure. We gave USSOCOM OIG credit in our earlier report for addressing the recommendation and did not require additional comments. As part of this external quality control review, we reviewed the USSOCOM OIG's audit policies that were issued during the prior review and determined that the updated audit policies did not address the threats to independence after report issuance in accordance with GAS 3.26. Therefore, USSOCOM OIG's audit organization should implement the recommendation to update audit policies to include procedures for evaluating threats to independence after the audit report is issued. We request the USSOCOM Inspector General provide additional comments on Recommendation 1 in response to the final report by September 15, 2016.

### ***Finding 2. The USSOCOM OIG Audit Manager Signed the Independence Statement for the USSOCOM Inspector General***

GAS 3.02 states that in all matters relating to audit work, the audit organization and the individual auditor, whether Government or public, must be independent. SOIG-A Policy 2013-1 "Independence Statement Procedures," April 13, 2013, Section 2.a., states that auditors must complete the independence statement and file it in the project working papers. USSOCOM OIG's Audit Division Audit Standard Operating Procedure 2014-1, November 24, 2014, Section 9.2, states that all members of the audit organization including audit management and the Inspector General must assess their independence. The auditor must assess his or her independence and complete the individual independence statement. Every auditor, to include the Inspector General, should complete this form.

The USSOCOM OIG audit manager was signing the independence statement for the Inspector General. However, independence statements are generally reviewed by the next level supervisor to determine whether a threat to independence exists. The audit manager signing the Inspector General's independence statement is not effective for reviewing independence.



During our review, the USSOCOM OIG audit manager prepared an independence statement with revised wording for the USSOCOM Inspector General's independence statement that would address the Inspector General's independence and would not require a signature from the audit manager. We reviewed the new wording for the independence statement for the USSOCOM Inspector General and determined that it would address this independence issue. No further action is needed.

### ***Finding 3. Working Papers Did Not Properly Document Required Elements***

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

USSOCOM OIG's Audit Division Audit Standard Operating Procedure 2014-1, November 24, 2014, Section 6.1, states that working papers serve as a record of the audit results, and should be organized to facilitate supervisory reviews. Further, working papers should ensure subsequent reviewers can easily follow the auditor's logic and find support for the audit results.

Section 6.1.1 states that all audit support must be attached to a procedure step that contains purpose (audit step), source, record of work done, and conclusion.

For two of four audits reviewed, the auditors did not properly document audit work by not including elements of a working paper or properly placing information in appropriate sections of the working paper. For one audit, we identified 16 working papers that did not include information in the source tab. In addition, for another audit, the conclusion section for a working paper was missing. This audit also had working papers documenting the record of work done in the conclusion section, and the record of work portion of the working paper was blank. By not including a purpose, source, scope, record of work, or conclusion in the working papers, it can be difficult to determine whether the auditor fully reviewed the audit documentation. For the annual quality control review assessment completed by the USSOCOM OIG's audit organization, the auditors identified and addressed the issue of including the elements of the working paper. Specifically, the audit manager reminded the auditors that working papers should be clear and understandable to a knowledgeable reader without detailed supplementary work or oral explanations.

### ***Recommendation 2***

The USSOCOM OIG audit manager should ensure that the audit policies are followed relating to documentation of audit work to include purpose, source, record of work done, and conclusion in audit working papers by continuing to perform supervisory and quality control reviews to monitor compliance with the audit policy.

### *Management Comments*

The USSOCOM Inspector General agreed with the recommendation. Audit management briefed the audit staff members on the importance of documenting all the critical elements of their fieldwork (purpose, source, record of work done, and conclusion), and the audit supervisor will ensure all elements are complete before signing.

### *Our Response*

Comments from the USSOCOM Inspector General addressed all the specifics of the recommendation, and no further comments are required.

#### **Finding 4. *Relationship Between the Universe and Items Tested Were Not Explained In Report.***

GAS 7.12 states that in describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

USSOCOM OIG's Audit Division's Audit Standard Operating Procedure 2014-1, November 24, 2014, Appendix I, Audit and Report Checklist for Performance Audits, has a checklist item that asks:

“Did the auditor(s) explain the relationship between the universe and what was audited; identify organizations, geographic locations, and period covered?”

For one of the four reports reviewed, the sampling methodology was not fully explained. Specifically, the report did not explain the relationship between the universe and the items tested. Also, we could not determine what type of sampling methodology was used to support the items tested.

### *Recommendation 3*

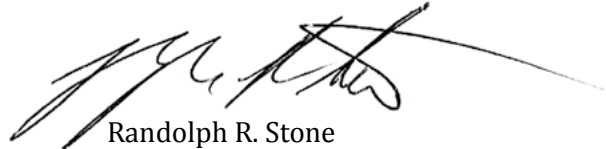
The USSOCOM OIG audit manager should ensure that the sampling methodology is fully explained in audit reports through supervisory review and the use of the quality control checklist as contained in USSOCOM OIG's Audit Division's Audit Standard Operating Procedure 2014-1, November 24, 2014, Appendix I, Audit and Report Checklist for Performance Audits.

### *Management Comments*

The USSOCOM Inspector General agreed with the recommendation, stating that the audit staff has been briefed and the audit supervisor will ensure that the sampling methodology used is clearly articulated prior to signing working papers.

### *Our Response*

Comments from the USSOCOM Inspector General addressed all the specifics of the recommendation, and no further comments are required.

A handwritten signature in black ink, appearing to read 'Randolph R. Stone', with a long horizontal flourish extending to the right.

Randolph R. Stone  
Deputy Inspector General  
Policy and Oversight

# Enclosure 2

## Management Comments



UNITED STATES SPECIAL OPERATIONS COMMAND  
7701 TAMPA POINT BOULEVARD  
MACDILL AIR FORCE BASE, FLORIDA 33621-5323

SOIG

6 July 2016

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR  
GENERAL, 4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: External Peer Review on the United States Special Operations Command Office of  
Inspector General Audit Division Letter of Comments

1. This memorandum responds to the subject review, Letter of Comments, dated June 22, 2016.  
Our responses to the three recommendations is as follows:

Recommendation 1. The USSOCOM OIG audit manager should update audit policies to  
include procedures for evaluating threats to independence after the audit report is issued.

SOIG-A Response. Non-concur. On June 30, 2014, your organization published Report  
No. DODIG-2014-089 "*Implementation of 2011 Generally Accepted Government Auditing  
Standards Independence Standards at the DoD Audit Organizations*". In this report, page 21,  
footnote 8, it is stated that "*USSOCOM did not have internal audit policies implementing the  
December 2011 GAGAS independence standards. However, during our review, they issued new  
internal audit policies on April 17, 2013, and these policies adequately implement the December  
2011 GAGAS independence standards*". Based on your report and the comments contained  
therein, we non-concur with this recommendation.

Recommendation 2. The USSOCOM OIG audit manager should ensure that the audit  
policies are followed relating to documentation of audit work to include purpose, source, record  
of work done and conclusion in audit working papers by continuing to perform supervisory and  
quality control reviews to monitor compliance with the audit policy.

SOIG-A Response. Concur. Audit Staff has been briefed on the importance of  
documenting all the critical elements of their fieldwork (purpose, source, record of work done  
and conclusion) and the Audit Supervisor will ensure all elements are complete before signing  
off on working papers. **(CLOSED 22 June 2016)**

Recommendation 3. The USSOCOM OIG audit manager should ensure that the  
sampling methodology is fully explained in audit reports through supervisory review and the use  
of the quality control checklist as contained in USSOCOM Inspector General Audit Division's  
Standard Operating Procedure 2014-1, November 24, 2014, Appendix I, Audit and Report  
Checklist for Performance Audits.

## Management Comments (cont'd)

SOIG-A Response. Concur. Audit Staff has been briefed and the Audit Supervisor will ensure that sampling methodology used is clearly articulated prior to signing off on working papers. (CLOSED 22 June 2016)

We express our thanks to your staff who conducted this review in a professional and effective manner. Please direct questions to [REDACTED]



DENIS P. DOTY  
Colonel, U.S. Air Force  
Inspector General



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

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