DEPARTMENT OF DEFENSE
Defense Commissary Agency
Fort Lee, VA 23801-1800

MANUAL

DeCA INTERNAL AUDIT MANUAL

DeCAM 90-5.1
August 10, 2011

Internal Review
OPR: DeCA/IR

1. POLICY. This Manual is issued under the authority of Defense Commissary Agency Directive (DeCAD) 90-5, "Internal Audit Activities", August 10, 2011 (Reference (a)). Users of this manual will comply with all policies as defined in DeCAD 90-5 References listed within.

2. PURPOSE. This manual contains guidance and procedures for accomplishing audits within the Defense Commissary Agency (DeCA). It supplements all References listed within.

(a) This manual is not intended to provide specific guidance for every situation or condition auditors may encounter in their daily operations. Accordingly, auditors must consult appropriate levels of DeCA IR management for guidance as necessary.

(b) All DeCA organizational elements are encouraged to submit suggested changes to this manual through channels, to HQ DeCA IR when they recognize need for improvement. DeCA IR may approve or issue instructions to implement or supplement procedures contained herein.

3. APPLICABILITY. This manual applies to DeCA IR.

4. RELEASABILITY – UNLIMITED. This Manual is approved for public release and is located on DeCA's Internet Web site at http://www.commissaries.com and in DeCA Public Folders/All Public Folders/Office of Internal Audit.

5. MANAGEMENT CONTROL SYSTEM. This Manual contains internal management control provisions that are subject to evaluation and testing as required by DeCAD 70-2.

6. EFFECTIVE DATE. This Manual is effective immediately**.**

Keith M. Owens
Director, Office of Internal Audit

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REFERENCES

(a) DeCAD 90-5, "Internal Audit Activities," TBD
(b) GAO-07-731G "Government Auditing Standards (Yellow Book)", current edition[1]
(c) DoD Manual 7600.7-M, "DoD Audit Manual", February 12, 2009
(d) GAO-03-273G, Assessing the Reliability of Computer Processed Data, October 2002, External Version 1
(e) DoD Instruction 7600.2, "Audit Policies," April 27, 2007
(f) DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, Certified Current as of November 21, 2003
(g) DoD Directive 5105.55, "Defense Commissary Agency," March 12, 2008

[1] The Yellow Book can be viewed at www.gao.gov, or copies can be purchased via the internet at: http://bookstore.gpo.gov.

CHAPTER 1.

AUDITING STANDARDS

1.1. Overview. Auditing standards are broad statements of auditors' responsibilities. The standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. The standards are the criteria or performance measures used to guide auditors in their work. Because auditing has no simple formula, auditors and supervisors must exercise professional judgment throughout the audit process. An awareness of the adherence to auditing standards will improve the quality of audit work and provide a basis for the exercise of professional judgment.

1.2. Sources of Auditing Standards. A number of professional and government organizations issue auditing standards, policies, and procedures.

a. Generally Accepted Government Auditing Standards (GAGAS). The Comptroller General's Government Auditing Standards—2007 Revision (Reference (b)), often referred to as the "Yellow Book" provides guidance for financial and performance audits.

b. Department of Defense Inspector General (DoDIG) Audit Policies and Procedures. The audit policies and procedures set forth in the DoDIG Audit Manual (Reference (c)) incorporate Comptroller General Standards. The Audit Manual was designed, in part, to assist Department of Defense (DoD) audit organizations in complying with Comptroller General auditing standards, policies, and procedures.

c. American Institute of Certified Public Accountants (AICPA) Auditing Standards. The AICPA statements on auditing standards primarily pertain to public accountants performing financial audits—that is, rendering an opinion on financial statements.

1.3. Compliance with Auditing Standards. The DeCA Office of Internal Audit (IR) office specifically adopted the Comptroller General auditing standards that include general standards as well as fieldwork and reporting standards for financial and performance audits. All DeCA IR auditors must adhere to these standards, as stated in the "Yellow Book" reference (b), as adherence helps to produce quality audits that are of maximum benefit to DeCA managers. The Independence Statement (**Appendix A**) will be included in TeamMate electronic working papers. DeCA IR procedures concerning fieldwork and reporting are discussed in Chapters 3 through 6.

CHAPTER 2.

AUDIT LIFE CYCLE AND MANAGEMENT

2.1. Overview. The audit life cycle begins with the planning phase and extends through audit reporting and follow-up (See Figure 2.1) below. The audit team consists of the auditor(s), lead auditor, IR Deputy Director, and IR Director. This section provides broad, general background information on the audit process.

2.2. The Audit Process. The audit life cycle consists of four major phases: planning, fieldwork, reporting, and follow-up. The planning phase encompasses all actions to identify potential audit subjects, perform a risk assessment, prepare the annual audit plan, perform preliminary audit planning, define audit objectives, thoroughly plan the audit, and develop the audit program. The fieldwork phase includes gathering sufficient and appropriate evidence to support audit results and provide a basis for specific recommendations. During the reporting phase, the auditor prepares the audit report to present identified findings and recommendations so management can take appropriate corrective actions without the need for further review or study. This phase culminates with the receipt of management comments and the issuance of the final report. The audit team receives and evaluates management comments, prepares and distributes the final report, and selects recommendations for subsequent follow-up. Follow-up audits determine whether actions taken by management corrected the cited deficiencies.

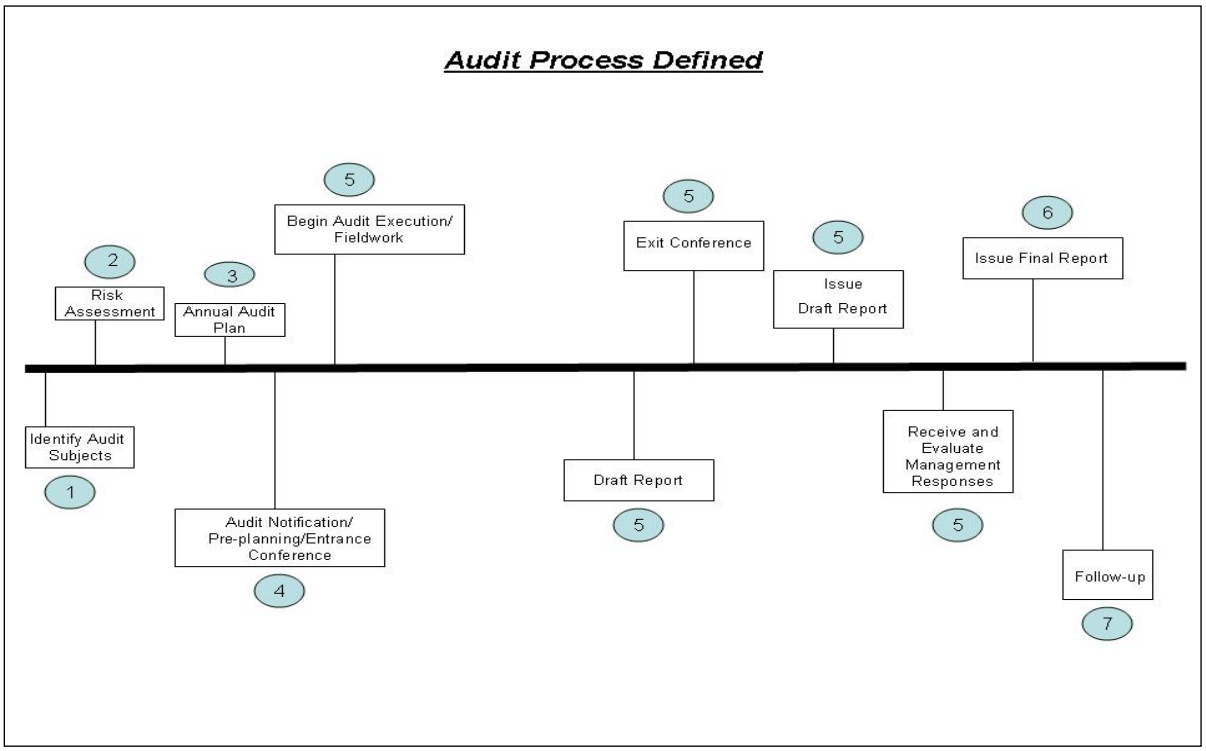

Figure 2.1.

a. Identifying Potential Audit Subjects. Audit subjects are identified in a variety of ways.

(1) Audit Needs. Auditors identify potential problems ("audit needs") from a variety of sources including observations outside the scope of current audits, discussions with management officials and operating personnel, reviews of other audit and inspection reports, personal experience, organization mission plans, and professional judgment. Auditors document audit requirements on working papers. These informal working papers represent an inventory of "reminders" to assist in developing audit plans. Audit needs working papers should identify the DeCA activity, the problem (along with significance and recommended audit approach), the disclosure source (if applicable), and the estimated required staff hours. A suggested format for audit needs is at **Appendix B**.

(2) Call for Audit Suggestions. To develop the annual plan, the IR Director will send out a call for audit suggestions to all senior DeCA management and members of the DeCA Board of Directors.

(3) Follow-up Audits. Include follow-up audits in the annual plan, when applicable.

(4) Entrance and Exit Briefing Attendance. Questions and comments during briefings may be outside the scope of the current audit, but could be a separate audit need.

(5) Public Accountant Recommendations. Follow-up on public accountant report recommendations to determine whether significant problems detected in the public accountant reports were corrected.

(6) Mission Directives. Audit office members will review DeCA "mission directives" to determine whether there are potential audit subjects.

(7) Significant Activities. Significant Activity Reports often mention subjects of interest to management.

(8) The DeCA IR Director will maintain a file of audit need documents and an informal log to record the date the auditor prepared the audit need, the activity involved, the unit, a descriptive title, and the disposition (included or not included in the annual plan).

b. Risk Assessment. The DeCA IR Director and/or Deputy will use a risk-based planning approach to develop the annual audit plan. This process is described below.

(1) Develop audit suggestions throughout the year following the guidance in paragraph **2.2. a**. of this manual.

(2) Evaluate the potential audit subjects in terms of the nine risk assessment factors described in **Appendix C.**

(3) Calculate a risk assessment score for each potential audit subject using the Risk-Based Planning Model in **Appendix C**.

(4) Rank audit subjects by their risk assessment score.

(5) Select audit subjects and prepare the annual plan.

c. Annual Audit Plan. DeCA IR audits evaluate a variety of subjects, DeCA-wide, at various levels of management and corporate organization. These audits target subjects with significant investment or

sensitivity, or that affect operational capabilities and results. The annual audit plan outlines DeCA IR goals and objectives and represents the basis for allocating resources among the various types of audits.

(1) Goals and Objectives. The IR Director/Deputy establishes performance goals and objectives annually. These goals and objectives represent targets for the audit effort and establish the IR contribution to the overall Agency goals and objectives.

(2) Scheduling Audit Subjects. The IR Director commits to a particular audit because good reason to perform the audit was identified and documented during audit plan development. In selecting subjects, the IR Director considers all available data, including data gathered for risk-based planning.

(3) Planned Audits. Unless higher priority subjects arise during the year, the IR Director/Deputy should normally select subjects from the annual audit plan. To the extent possible, higher risk subjects should be selected first.

(4) Requested Audits. The IR Director will schedule audit requests to start as soon as practical and will advise the requesting official of the approximate start date.

d. Audit Notification/Planning. This segment of the process begins when the audit team issues the audit announcement memorandum/email and begins research. The audit team acquires background information needed to prepare the audit program, identify potentially deficient conditions (potential audit results) and their probable/possible causes, identify significant internal controls, and assess the program's risks. During this phase, the audit team will also prepare for and conduct the entrance conference.

e. Audit Execution. This segment of the audit process begins once the audit program is prepared and generally ends when the audit team fully executes the audit program.

(1) Audit Program. The audit team identifies and limits the audit objectives to those that fulfill the audit's purpose. The auditor then develops audit steps for each objective that will enable the auditor to fully document and substantiate the potential deficiencies, underlying causes, and impact. At a minimum, each audit program will include steps to confirm compliance with significant controls identified during the planning phase as well as the sample selection method. The completed set of audit steps comprises the audit program.

(2) Audit execution includes data gathering, summarization and analysis, validation, writing the draft report, conducting an exit conference, and sending the report out for comment. Execution begins when the auditor starts applying the audit program and ends when the audit team receives management comments.

(a) Data gathering is all the fieldwork the auditor performs, as outlined in the audit program, to gather evidence to support the audit objectives and potential findings.

(b) Summarization and analysis include compiling and evaluating audit results, drawing conclusions, and identifying potential findings.

(c) Validation is the discussion of potential audit results with the auditee(s) during (not after) the audit. Either the auditee(s) agrees with (validates) the audit results, or the auditee(s) disagrees and provides evidence to support their opposing position. As a result of these discussions, additional audit testing may be necessary to obtain further support for the audit findings or to validate the new evidence presented by the auditee(s).

(d) The discussion draft report includes providing a copy of the draft report to those auditees the auditor(s) worked directly with. The purpose of the discussion draft is to provide results to the program representatives and obtain their comments before the draft report is submitted to management for comments.

(e) The draft report portion of fieldwork includes drafting the audit report, reviewing the draft report, discussing the report, and providing the report to the Functional Process Owners (FPO's), Region Directors/Deputy Directors.

f. Final Report. This phase begins when the audit team receives management's response to the draft report and ends with final report distribution. This phase includes evaluating management comments, preparing the final report, publishing and distributing the final report, and selecting recommendations for follow-up.

g. Follow-up. This phase begins after completion of the final report and ends when a follow-up report is published. Follow-up is an integral part of good management and is a responsibility shared by management and auditors. Follow-up can determine whether management took the recommended actions or satisfactory alternatives, and whether the actions taken were effective in eliminating the deficiencies.

2.3. Life Cycle and Management Responsibilities.

a. The IR Director's Responsibilities. The IR Director, as second-level supervisor, shall:

(1) Approve overall objectives, and audit programs.

(2) Monitor audit progress and performance, and approve requests for deviation from the approved project plan (e.g., changes in audit project milestones, resource limits, or objectives).

(3) Promptly act on identified problems (such as access denials by management and disagreements with management officials).

(4) Review and approve final audit reports for release to management and assure they comply with GAGAS and DeCA IR guidance.

(5) Establish procedures to ensure required quality assurance procedures (e.g., supervisory review and independent reference reviewing) are accomplished.

(6) Review a minimum of one set of audit working papers every 3 months. After completing the working paper review, the IR Director will discuss the review results with the auditor and supervisor.

b. The IR Deputy Director's Responsibilities. The IR Deputy Director, as first-level supervisor, shall:

(1) Maintain contact with local management and develop audit issues to include in annual audit plans.

(2) Provide auditors with project assignments, guidance, technical assistance, and training.

(3) Monitor audit progress and performance, and keep the IR Director informed of project.

(4) Ensure audits are conducted IAW government auditing standards and DeCA IR audit policies and procedures prescribed in this manual.

(5) Approve the audit program.

(6) Act on identified problems (e.g., access denial or disagreements with management personnel). Elevate to the IR Director problems that cannot be resolved.

(7) Evaluate requests to deviate from audit project milestones, resource limits, or objectives. If deemed appropriate, elevate requests to the IR Director for approval.

(8) Review and approve draft audit reports for release to management and assure they comply with GAGAS and DeCA IR guidance.

(9) Appoint an auditor not associated with the audit to independently reference and review the draft report before soliciting management comments.

(10) Review and approve the evaluation of management comments before IR Director's review.

c. Lead Auditor Responsibilities. Lead auditors perform oversight of audit planning, execution, and reporting.

(1) Review and approve finding outlines, IAW directorate policy.

(2) Participate in developing and finalizing finding outlines.

(3) Ensure auditors conduct all assignments IAW government auditing standards and DeCA IR audit policies and procedures prescribed in this manual.

(4) Review and approve all auditor working papers. In addition, document working papers reviewed, dates of reviews, and review results on TeamMate coaching notes.

(5) Assist auditors in planning the audit, review planning working papers, and evaluate research results.

(6) Act on identified problems (e.g., access denial or disagreements with management personnel). Elevate to the IR Deputy problems that cannot be resolved.

(7) Participate in in-brief, validation, and out-brief discussions with management officials.

(8) Review evaluation of management comments before IR Deputy review.

d. Auditor Responsibilities. Auditors manage assigned audit projects IAW government auditing standards and DeCA IR policies and procedures. Auditors shall:

(1) Conduct audit projects IAW government auditing standards and DeCA IR policies and procedures prescribed in this manual and DeCAD 90-5, Internal Audit Activities.

(2) Document all work performed, and evidence gathered, in TeamMate electronic working paper files. The auditor must use the file structure in TeamMate to prepare and maintain working papers. Auditors may add to, but not delete from, the TeamMate file structure.

(3) Respond to and clear TeamMate coaching notes in a timely manner, normally 2 to 3 workdays.

(4) Perform research/planning, evaluate planning results, formulate audit objectives, and prepare the audit program.

(5) Develop a separate finding outline for each potential audit result.

(6) Gather data to support steps in the audit program. Answer all audit steps and assure sufficient and appropriate evidence is gathered to reach a conclusion on each announced objective. Validate the audit conclusions with management officials.

(7) Resolve or elevate problems (such as access denial or disagreements with management personnel; significant audit results requiring interim reporting; and potential need to deviate from audit milestones, resource limits, or objectives).

(8) Summarize audit results, identify report issues, prepare the draft report, and elevate the completed draft through the Lead Auditor to the IR Deputy for approval. Once approved, discuss the report with management officials.

(9) Evaluate management comments, prepare the final report, and complete and finalize the working papers.

2.4. Audit Project Management. DeCA IR uses TeamMate to plan and manage individual audit projects (allocate audit resources and track project completion). At the start of each assignment, the audit team enters project information (milestones and resources) into TeamMate. The audit team continuously updates TeamMate to reflect actual milestone completion and resource use.

2.5. Timely Audit Completion. The timely completion of audits provides an essential service to management. The auditor's goal is to provide a report that is of maximum use, providing relevant evidence in time to respond to officials of the audited entity, legislative officials, and other users' legitimate needs. Toward this end, audit teams (auditor, lead auditor, IR Deputy and IR Director) should establish realistic milestones in TeamMate at the start of each audit, and the IR Deputy should carefully review Project Plan Reports to monitor team progress in meeting the milestone and resource targets. To assist in making timely decisions relative to the audit resource investment, the IR Director should establish thresholds (resource and milestone) that, if exceeded, require a briefing from the audit team.

CHAPTER 3

AUDIT PLANNING

3.1. Overview. The main purpose of audit planning is to obtain all the information needed to determine the audit scope and objectives, and to develop the program for subsequent in-depth audit work. The actual amount of planning work accomplished will vary from audit to audit and depend mainly on the audit team's experience, familiarity with the subject area, and understanding of the control environment. This section identifies planning responsibilities and provides guidance for conducting planning. **Appendix D**, *Audit Planning Program*, provides additional guidance.

3.2. Planning Responsibilities.

a. The IR Director shall:

(1) Approve new audit assignments and their objectives.

(2) Verify audit planning was conducted IAW DeCA IR policies and procedures during working paper reviews (reference paragraph **2.3.a.6**) and provide feedback to the audit team.

(3) Review a sample of audit planning programs during the year to ensure the programs included all required elements and provide feedback to the rest of the audit team.

b. The IR Deputy Director shall:

(1) Coordinate audit subject assignments with the IR Director.

(2) Periodically monitor auditor progress during planning, provide assistance as needed, and ensure audit planning is conducted IAW DeCA IR policies and procedures.

(3) Ensure the auditor uses the Audit Planning Program (**Appendix D**) and either completes each step or provides rationale for not completing the step.

(4) Review and approve the audit program, and ensure it includes the agreed-upon objectives and a series of steps that would reasonably accomplish each objective. The IR Deputy Director will also approve any changes made to the audit program during execution.

c. The lead auditor shall:

(1) Continuously monitor auditor progress during planning, provide assistance as needed, and ensure the auditor conducts planning IAW DeCA IR policies and procedures.

(2) Ensure the auditor uses the Audit Planning Program (**Appendix D**) and either completes each step or provides rationale for not completing the step.

(3) Continuously review planning working papers, and document the review on TeamMate coaching notes.

(4) Complete the planning work paper review before the auditor begins audit execution.

(5) Electronically sign off reviewed working paper files.

(6) Prepare significant activity report for bi-weekly submission to the IR Deputy Director.

(7) Perform the duties of the IR Deputy Director as required.

d. The auditor shall:

(1) Conduct audit planning IAW DeCA IR policies and procedures.

(2) Prepare the audit announcement memorandum/email for supervisory auditor signature/transmission and conduct the audit entrance conference.

(3) Prepare an audit program that includes the objectives of the audit and a series of detailed steps to answer each objective. The audit program will include the elements described in (paragraph **3.8**).

(4) Use the Audit Planning Program (**Appendix D**) to conduct audit planning. The auditor will answer each step in the Audit Program, and will not answer a step "NA" without providing rationale and obtaining lead auditor approval.

(5) Document the results of planning discussions, audit tests, internal control reviews, etc. in TeamMate working papers following the guidance in (paragraph **3.6**). The auditor will hyperlink Audit planning Program step responses to the supporting working papers.

(6) Summarize planning results in TeamMate, to include the rationale for either continuing or terminating the project.

(7) Respond timely (within 2–3 working days) to lead auditor working paper review coaching notes by answering questions, responding to general comments, and accomplishing any additional directed tasks.

3.3. Subject Selection and Coordination. The assignment of audits is normally the IR Deputy Director responsibility, in coordination with the IR Director. The IR Deputy should assign audit projects from the annual plan to the maximum extent possible. Factors to consider include skill, experience, and interests of the auditor; time constraints, if any; and subject priority, based on the risk analysis rating.

3.4. Planning - Initial Requirements. At the start of each audit project, the supervisor will discuss with the auditor and lead auditor the scope, objectives, and basic approach of audit planning. The lead auditor will then complete and submit for review and approval the audit announcement memorandum/email. The lead auditor will assist the auditor in preparing slides for (see example at **Appendix E**) the entrance conference, and conduct preliminary research. Reference the Audit Program, **Appendix D**. ***Note:*** The Audit Program is also included in your TeamMate project.

a. Audit Announcement Memorandum/Email. The audit team provides applicable FPOs/region directors written notification before the planned audit start date. This notification is accomplished by requesting notification be sent from the DeCA Headquarters Support Office (HSO). The HSO prepares a tasker to track responses. ***NOTE***: Audit teams should not provide advance notification where the element of surprise is essential in accomplishing the audit objectives, such as cash audits.

(1) Memorandum/Email Contents. The memorandum/email shall:

(a) Identify the audit title in the subject line.

(b) Identify the organizations to be audited.

(c) If audit objectives have not been determined, the audit notification should only include a broad statement regarding the audit focus.

(d) Identify the assigned auditor, telephone number, e-mail address, and security clearance if applicable.

(e) Request the names, telephone numbers, and e-mail addresses of the subject area focal points.

(f) Offer to schedule an entrance conference or provide an opportunity for management to express any concerns.

(g) Include IR Deputy Director's signature block and distribution, if applicable. The distribution will include DeCA senior management, all offices/functions affected by the audit, the Pentagon Staff Liaison Specialist, and the DeCA Inspector General.

b. Audit Entrance Conference. The auditor and lead auditor will conduct an entrance conference with the functional process owners (FPOs)/region directors before beginning the audit. Inform the FPOs/region directors of the audit purpose and scope, including the overall and specific objectives, and identify the estimated time period of the audit. See **Appendix E**.

(1) In-brief key personnel of the audited entity and other operating officials who have an interest in the audit.

(2) Ask management officials if they have any recommendations regarding the scope and objectives of the audit.

(3) Ask management officials to identify any reports and data they use to determine the activity's general health and assess how well the activity is managed. Obtain copies of applicable reports.

(4) Document results of each entrance conference in a memorandum for the record (MFR). Include the MFR in TeamMate project working papers.

c. Preliminary Research. Auditors will perform preliminary research to familiarize themselves with the subject and prepare for the entrance conference.

(1) Identify and review applicable DeCA and DoD directives. They provide good sources of background information, identify internal controls, and explain operational requirements.

(2) Review reports issued by other agencies covering the subject area posted on their respective Web home pages.

3.5. Planning - Research. Auditors will gather basic background information, review prior audit coverage, perform limited tests to identify potential findings, identify and evaluate internal controls, assess the risk of fraud, identify management performance standards (metrics), identify computer-generated data that will be used in the audit, and obtain input from other organizations. Reference the Audit Planning Program, **Appendix D**. ***NOTE:*** All data specified may not apply for every audit, so auditors should use professional judgment in eliminating those steps that do not apply.

a. Basic Information of the Audited Entity. Acquire the following information, as applicable: primary and subordinate missions and functions, budget and resource information, organizational structure, personnel assigned, operating instructions and other supplemental criteria.

b. Prior Audit Coverage. Review prior audit coverage within the last 3 years from the start of the current audit. If prior audit reports are identified, obtain copies. Auditors must follow up and report on significant findings identified and recommendations made to the audited management level and location in prior reports, if the recommendations relate to the current audit objectives. To identify prior audits:

(1) Review DeCA IR office working paper files.

(2) Ask the audit client or the applicable audit focal point about prior audits.

(3) Review prior audit coverage of DoDIG and GAO.

c. Internal Controls. GAO standards require that auditors review and evaluate internal controls during all audits. The purpose is to (a) determine if the established controls are working as intended and (b) provide reasonable assurance of detecting or preventing errors, irregularities, inefficiencies, or uneconomical practices.

(1) Identify Internal Controls. During planning, the auditor will identify the internal controls (processes and procedures) established and implemented to account for and protect assets, assure accurate reporting, and efficiently and effectively accomplish the mission of the activity under review. This step is normally accomplished through review of regulations and operating instructions, discussions with managers and operating personnel, physical inspection, review of internal control reports (assessments performed to meet the requirements of the Federal Managers Financial Integrity Act), and reviews of prior audit reports.

(2) Flowchart Controls. The auditor must gain an understanding of the activity's control environment and flow of transactions. Flowcharts assist in this process by providing a graphic portrayal of the operation. They help the auditor visualize and comprehend the activity's work processes. They are also beneficial in evaluating the adequacy of controls; therefore, use flowcharts whenever feasible. Time constraints and the size and complexity of the activity are factors the auditor considers before reaching a decision to use flowcharts. When the auditor does not use flowcharts, the IR Deputy Director must approve the choice, and a written narrative of the operation must be used.

(3) Test Controls. During planning, auditors should perform limited tests to assess compliance with established controls and to form a preliminary opinion on their effectiveness. These tests will help the auditor determine the nature, timing, and extent of any additional detailed audit tests deemed necessary.

(a) If the auditor concludes the controls are adequate, the auditor should reduce the extent of detailed testing during audit execution.

(b) Conversely, if the auditor doubts the reliability of controls or elements thereof, the auditor should accomplish further in-depth audit work in the areas identified.

d. Fraud. While reviewing controls, the auditor must be alert to situations or transactions that could be indicative of fraud (errors, irregularities, and illegal acts). The warning signals discussed below will assist the auditor in identifying potentially fraudulent situations.

(1) Difficulty in Obtaining Evidence. This signal includes difficulty in obtaining audit evidence with respect to unusual or unexplained transactions, incomplete or missing documentation and authorizations, and alterations in documentation or accounts.

(2) Inadequate Controls. Noncompliance and lack of oversight are two important control-related problems that would allow fraud to occur without detection.

(3) Unexplained Fluctuations. Unusual or unexplained fluctuations in material account balances, physical inventories, and inventory turnover rates.

(4) Performance Problems. Encountered performance problems such as delayed, evasive, or unreasonable responses to audit inquiries.

(5) Dispersed Locations. Widely dispersed locations accompanied by highly-decentralized management and inadequate reporting systems.

(6) Electronic Data Processing Weaknesses. Known continuing weaknesses in internal controls over access to computer equipment or electronic data entry devices.

e. Metrics. Metrics are objective standards management uses to assess performance. These standards may be in the form of an error rate, on-time rate, out-of-tolerance rate, etc. Management's success in achieving (or failure to achieve) the established metrics provides a prime indicator of the organization's effectiveness. During audit planning, the auditor should gather information regarding the identified metrics. During execution, the auditor should determine if the metrics were correctly computed and accurately reported.

f. Computer-Generated Data. GAO standards require that "when computer-generated data are an important or integral part of the audit and the data's reliability is crucial to accomplishing the audit objectives, auditors need to satisfy themselves that the data are relevant and reliable." (Appendix F) During audit planning, auditors will identify the computer-generated data and reports they will rely on during application to support audit conclusions. During execution, auditors will test to verify data reliability (paragraph **3.8.h**) and document in working papers.

g. Input From Other Organizations. Evidence obtained from a competent and credible third party subject matter expert is more reliable than that obtained from the audit client. Organizations that work with the audit client often have a good understanding of the audit client's strengths and weaknesses. Therefore, the auditor can generally benefit by obtaining input from personnel who interact with the audit client.

3.6. Planning - Working Paper Requirements. Auditors will plan, prepare, assemble, and summarize audit planning working papers for every assigned audit project.

a. Follow the specific procedures for uniform working paper organization and presentation required in this manual, (paragraphs **4.3** through **4.5**).

b. Use TeamMate electronic working papers and the file structure specified therein.

c. Beyond these procedures and requirements, auditors must use professional judgment and initiative in determining the manner of presentation.

3.7. Planning Summary Working Paper. At the conclusion of research/planning, the auditor will prepare a working paper that summarizes the results and provides rationale to conduct an in-depth audit or to terminate the audit without further audit work. Include the following elements:

a. Background Information. Provide sufficient detail to enable the audit team to understand the program, system, or function.

b. Management Contacts. Identify the unit officials contacted during research and their suggestions related to the audit scope, if any.

c. Control and Fraud Assessment. Provide a preliminary assessment of the effectiveness of established controls, including an assessment of the risk of abuse or illegal acts (fraud) occurring.

d. Computer-Generated Data. Identify the computer-generated data that will be used during the review to support audit conclusions, if any.

e. Prior Audits. Provide an assessment of the effects of previous audits with similar objectives on the proposed review, if any.

f. Research Results. Identify potential findings: condition, cause, impact, criteria, and Potential Monetary Benefit (PMB), if any.

g. Rationale to Continue or Terminate the Audit.

(1) Continuing the Audit. Recommend conducting further audit work if (a) planning results indicated the audit subject is sufficiently material or (b) the planning tests performed identified potential problems. The summary should estimate the time required to complete the audit and provide proposed completion dates.

(2) Terminating the Audit. Recommend terminating the audit if (a) the audit subject is not sufficiently material and (b) planning tests did not identify significant potential problems.

(a) Consider issuing a report at the end of planning if the auditor accomplished sufficient work during planning to support any statement made in the report. Most often, a clear report will be issued in this circumstance. Qualify the audit scope to ensure readers are fully aware of the limited testing done.

(b) If you decide not to issue an audit report, issue a closure memorandum to the applicable management official and reference the announcement memorandum/email. Advise the addressee why the audit work was terminated, and explain that an audit report will not be issued. Provide the closure

memorandum/email to offices that received the audit announcement memorandum/email and others that attended the entrance conference.

h. Hyperlinks. The auditor will hyperlink (cross-reference) all pertinent elements of the summary working paper (TeamMate Exception) to supporting working papers (TeamMate Procedures).

3.8. Audit Program. The audit program is a "living" document, and the auditor should begin writing the program during the audit planning. The auditor must complete a written audit program before starting any in-depth audit work. The lead auditor will review the program for adequacy and obtain approval from the IR Deputy Director before the auditor starts detailed audit testing. The program must provide understandable audit objectives and a series of program steps that will reasonably accomplish each objective. ***Note:*** The auditor should remember that, as audit work continues, it often becomes necessary to modify the audit program to adapt to existing conditions in the field. Changes to the audit program should also be approved by the supervisory auditor. Reference the Audit planning Program.

a. General Guidelines.

(1) The audit program will identify the objectives of the audit and provide a systematic series of audit procedures, tests, or steps to answer each objective.

(a) Gather sufficient and appropriate evidence to convince a reasonable person of the validity of the audit results. The amount and type of audit testing and evidence gathering depends on the judgment of the auditor and supervisory auditor.

(b) Design audit tests and data gathering procedures to facilitate subsequent summarization and reporting. Using spreadsheets and tables will greatly aid in summarizing data. Planning for summarization and reporting during program development will reduce the time needed to complete the audit. ***NOTE:*** If the auditor develops spreadsheets or databases for use in the audit program, the supervisory auditor should (during subsequent working paper reviews) perform basic internal consistency and logic checks to verify the accuracy of worksheet formulas and calculations or to test the logic used in making database queries.

(2) Whenever possible, the auditor should use computer assisted auditing tools and techniques (CAATTs) to obtain a 100 percent data download and draw conclusions for the entire population.

(3) When use of CAATTs is not feasible, use sampling, if possible, to accomplish audit objectives and maximize use of available audit resources. Select samples statistically whenever possible. Use of statistical sampling is essential when the need exists to estimate PMB or the extent of an error within an entire audited entity.

(a) Clearly identify the sampling plan and data requirements.

(b) Include guidance on selection parameters and number of items for testing in the audit program.

b. Potential Findings. Include audit steps addressing suspected problems, probable causes, and resulting impact. Design tests to determine:

(1) Condition. Gather sufficient and appropriate evidence to support a conclusion on each suspected problem identified during planning and to determine the extent of the problem. Use criteria as a basis to discuss the extent of the condition.

(2) Cause. Determine the cause of identified problems. Causes will frequently relate to control problems (paragraph **3.8.e**) such as inadequate procedures, guidance, oversight, or training. Steps should seek to identify the root cause. For example, it is not sufficient to tell management that personnel did not comply with a particular requirement - this is not the root cause. Management also needs to know if employees lacked familiarity with the requirement; did not have time to complete the requirement due to understaffing or some unusual circumstance; or lacked training to complete the required task. Management may contribute to the problem by failing to provide oversight, assigning too few staff to a task, or under-emphasizing the importance of a task. Identifying the root cause establishes the basis for a recommendation that will correct the condition found.

(3) Effect. Quantify the effect of deficient conditions. Whenever possible, design steps to capture "real" instead of "potential" impact.

c. Management's Issues. Include audit tests that provide coverage of management's suggested issues or concerns, if applicable.

d. Prior Audits. Include audit steps to follow up on prior audit results and recommendations if, during planning, the auditor identified prior audit coverage corresponding to the audit objectives of the current audit.

(1) Audit steps should be sufficient to determine if management took the indicated corrective action and the action corrected the deficiency. If the condition still exists, the steps should be sufficient to fully develop a "repeat" finding. The degree of support for repeat findings (or to clear findings) is the same as for initial findings.

(2) Include steps to confirm the amount of PMB realized, if applicable. Unfortunately, auditors frequently cannot trace changes in requirements and/or budgets to actual hard documentation to ascertain the extent that a benefit actually occurred. However, auditors can validate PMB when management makes a collection or billing or cancels a contract or purchase request.

(3) When applicable, fully document why follow-up was not necessary or accomplished on the findings and recommendations in prior audits with similar objectives.

e. Internal Controls. The audit program will include audit steps for each audit objective to test the effectiveness of and compliance with the significant controls identified in planning/research. The amount of testing will vary from audit to audit and depend on the amount of control-related work accomplished during research and the importance of controls to the objectives of the audit. Generally, the auditor will perform sufficient testing to ensure the controls in place are consistently applied. The following provides guidance to use in assessing controls.

(1) Personnel. Are a sufficient number of technically competent employees assigned to accomplish the tasks, and have employees received adequate formal and on-the-job training?

(2) Documentation. Are transactions and other significant events clearly documented, promptly recorded, and properly classified? Is the documentation readily available for examination?

(3) Authorization. Are transactions and other significant events properly authorized and executed only by persons acting within the scope of their authority?

(4) Separation of Duties. Are key duties in authorizing, processing, recording, and reviewing transactions separated among individuals?

(5) Access. Is access to resources and records limited to authorized individuals, and is accountability for resources assigned? Are resources periodically reconciled to accountability records?

(6) Computer Systems. For computer-generated data, are system application controls in place, are procedures documented for entering data into the computer system, and is access to the computer system controlled?

(7) Oversight. Is qualified and continuous oversight provided to ensure personnel comply with existing controls and internal control objectives are achieved?

(8) Compliance. If the system has a process to detect errors, perform sufficient testing to satisfy yourself that the process has been implemented. If the system requires a separation of duties, verify that one person does not have access to all steps of the process. If a process requires approval, perform sufficient testing to ensure the proper individuals are properly reviewing the task before providing the approval.

f. Fraud and Illegal Acts. Include steps that provide reasonable assurance for detecting fraud when auditing in areas where the potential for fraud exists; and, (a) planning audit tests indicated the existing controls were not effective or lacked compliance; or, (b) controls were not tested in the planning phase.

g. Metrics. Verify the accuracy of any metrics identified during planning (paragraphs **3.4.b.3** and **3.5.e**). Include steps in the program to determine if:

(1) Management personnel computed the metrics accurately. This involves performing sufficient testing to determine if the metrics calculations were accurate.

(2) Management personnel reported the metrics correctly. This involves confirming the documentation is complete and accurate and the metrics calculations were accurately and completely reported to management.

h. Tests of Computer-Generated Data. Government auditing standards require auditors to determine the reliability of computer-generated data when the data is crucial to accomplishing the audit objectives. Consequently, whenever an auditor relies on computer-generated data and reports as evidence to support an audit result, the audit program must include test steps to verify the accuracy of the data and reports. ***NOTE*:** If auditors use the computer-generated data only for background or informational purposes, citing the source of the data is sufficient.

(1) The two types of data testing methods are auditing around the computer (manual) and auditing with the computer (automated). While the auditor may use either method, or a combination of both, the manual method is the most common method used to test data reliability.

(a) Manual Method. Use the manual method when you have a visible audit trail to verify computer processing results. To test data reliability; (a) confirm computer-generated data with product

users; (b) conduct physical counts and inspections; (c) review output listings for completeness, obvious errors, and reasonableness of values; (d) trace source documents (e.g., purchase or receiving documents) to computer output; (e) recalculate computations; and, (f) develop additional tests deemed necessary to validate data reliability.

(b) Automated Method. The automated method uses computer-programmed tests to measure data reliability. The auditor should take advantage of any error-checking options available and include these in the audit program. The auditor should use various footing and cross-footing techniques to ensure accuracy and identify errors when the data are entered into a spreadsheet. Use range and reasonableness checks to identify obvious errors in data accuracy. In addition, many data downloading programs contain built-in editing options. Auditors can develop test transactions to determine whether the computer processes the transaction according to system specifications. Consult a local computer specialist to assist in developing appropriate tests. For additional information on this method, refer to (GAO-03-273G, Assessing the Reliability of Computer Processed Data, October 2002, External Version 1, Reference (d)).

(2) Sufficient testing will be accomplished to allow the auditor to reach one of the following conclusions: the data was sufficiently reliable, the data was not sufficiently reliable, or the data was of undetermined reliability.

CHAPTER 4

AUDIT EXECUTION

4.1. Overview. This section identifies audit execution responsibilities and provides guidance auditors will use to gather data and prepare detail working papers, summarize the audit results, document the work accomplished to assess controls and verify data reliability, and validate the audit results with management.

4.2. Execution Responsibilities.

a. The IR Director shall:

(1) During working paper reviews (paragraph **2.3.a.6**), verify the audit execution phase was conducted IAW Yellow Book standards and DeCA IR policies and procedures.

(2) Monitor audit progress and performance, and provide guidance and assistance as necessary.

(3) Evaluate, then approve or disapprove, requests for deviations from established audit project milestones, staff hours, and objectives.

b. The IR Deputy Director shall:

(1) Provide supervision and guidance, as needed, to the auditor through audit execution.

(2) Discuss execution results with the auditor on a frequent, recurring basis - at least every two weeks for experienced auditors and more frequently for new auditors and trainees.

(3) During periodic working paper reviews, the IR Deputy will spot-check table and spreadsheet footings and extensions for accuracy, before providing the draft audit report to the IR Director.

(4) Provide the IR Director periodic project status reports, briefings, or other locally developed reports advising of audit progress and results. The IR Director will determine reporting frequency.

(5) Evaluate and elevate to the IR Director requests for deviations from established audit project milestones and objectives.

(6) Evaluate identified problems (e.g., information access) and either resolve or elevate the problem to the IR Director.

c. The lead auditor shall:

(1) Lead and guide the auditor through audit execution.

(2) Review summary and supporting working papers during audit execution, and document the review in TeamMate coaching notes. Complete the review before providing the draft audit report to the IR Deputy for review.

(a) During working paper reviews, the supervisory auditor will spot-check table and spreadsheet footings and extensions for accuracy.

(b) For any comments, questions, and directions documented in TeamMate coaching notes, the supervisory auditor should follow up and ensure the auditor's reply comments are responsive.

(1) Provide bi-weekly status updates (significant activities) to the IR Deputy.

(2) Elevate to the IR Deputy requests for deviations from established audit project milestones and objectives.

(3) Evaluate identified problems and either resolve or elevate the problem to the IR Deputy.

d. The auditor shall:

(1) Conduct the audit IAW government and DeCA IR auditing standards.

(2) Apply each step in the audit program and collect sufficient and appropriate evidence to answer all audit objectives and support the audit conclusions.

(3) Keep the lead auditor informed on how the audit is progressing, and notify the lead auditor of any results requiring possible action. It may be necessary, for example, to reduce or terminate work on one objective, expand work on another objective, or issue an interim report.

(4) Prepare working papers to document performed work IAW paragraphs **4.3** through **4.5**.

(5) Timely (normally within five working days) respond to supervisory auditor TeamMate coaching notes, answering questions and providing brief explanations of actions that will be taken.

4.3. Working Paper Requirements. Auditors will use the TeamMate working paper file structure to establish current files for each audit project. The use of electronic working papers greatly reduces the requirement to print and manually store audit working papers and significantly enhances the summarization and review processes.

a. General Requirements. Organize the TeamMate working papers to facilitate supervisory review and so that subsequent reviewers can easily follow the auditor's logic and find support for the audit report. The auditor must provide the lead auditor and independent reference reviewer with a road map through the electronic working papers that clearly shows all steps taken in the audit process.

b. Hyperlinking Files. Generally speaking, hyperlinking requirements for electronic working papers are the same as they were for manually prepared working papers. ***NOTE:*** Do not hyperlink to Web-based documents when it is possible to download the documents to your computer and hyperlink to the downloaded documents. Web addresses and documents on the Web constantly change. Further, always hyperlink to files that are part of the current project file structure.

c. Supervisory Review. The lead auditor and IR Deputy will review project working papers and use TeamMate coaching notes to specify the working papers reviewed; indicate the dates they reviewed the specified working papers; and record their review questions, taskings, and overall comments (both favorable and critical). Also, the lead auditor must electronically sign auditor-prepared electronic working paper files.

d. Manual Working Papers. When necessary to prepare working papers manually, record complete identification data on the first page of each working paper (Audit Number, Title, Auditor, Date, Reviewer, Working Paper Title, Page Number, and Index). When you have more than one page of a working paper with the same index and working paper title, you may omit entries in the "Working Paper Title" block from all subsequent pages of the working paper.

4.4. Detail Working Papers (TeamMate Procedures). TeamMate Procedures contain responses to all audit program steps and any other data the auditor needs to build a firm, evidential structure on which to base audit results, their causes and effects, and related recommendations. Procedures can also be referred to as supporting working papers because they are linked to and serve as support for the summary working papers (TeamMate Exceptions) (paragraph **4.5**). When preparing Procedures, consider the following:

a. Step/Purpose, Scope/Methodology, Sources, Criteria, Results/Discussion, Conclusion, and Data Reliability. Each Procedure must clearly show these elements.

(1) Step/Purpose. This should hyperlink the reviewer to the specific audit step or series of audit steps to state the specific purpose for the work included in the Procedure.

(2) Scope/Methodology. The scope should include the parameters of work accomplished, e.g., timeframe or applicable dollar values. The methodology should explain what the auditor did to accomplish the stated purpose. If the methodology is stated in other supporting (detail) working papers, schedules, or exhibits, hyperlinking to the applicable working paper will suffice.

(3) Sources. The auditor should identify all sources, whether management officials, data systems, reports, etc.

(4) Criteria. The auditor should state the "should be" status of the functional area or issue being reviewed. If specific criteria are identified in related directives, hyperlinking to bookmarks in these directives will suffice.

(5) Results/Discussion. This paragraph should include a description of what you found/identified as a result of the work accomplished.

(6) Conclusion. This paragraph should state the auditor's conclusion formulated from the results obtained.

(7) Data Reliability. The auditor should discuss the types of evidence used to form conclusions and the reliability of the evidence/data.

b. Exhibits and Schedules. These are among the most common types of supporting documentation.

(1) Requirements. The wide variety of DeCA audit subjects may require the auditor to plan and design unique exhibits and schedules for each audit project. Therefore, properly planning exhibits and schedules will ensure they provide written evidence of work performed and pinpoint the deficient conditions. In developing an exhibit or schedule, the auditor must determine:

(a) What he or she will prove (the audit objective).

(b) What data he or she will need to complete the exhibit or schedule.

(c) What comparisons or analyses he or she will make to prove the condition or arrive at a conclusion.

(d) Where he or she will locate the data (filed, recorded, etc.) and how to identify the data.

(2) Design. After determining exhibit or schedule requirements, the auditor must design a schedule or exhibit format that will clearly present the results of the audit work. Each schedule or exhibit must contain the following basic elements (or, as applicable, hyperlinks to files where the information is located):

(a) Title or heading that clearly identifies the schedule or exhibit and its purpose.

(b) Identity of the organization and/or activity involved.

(c) Applicable time periods.

(d) Sources of data presented (very important)

(e) Data used for comparison or analysis (e.g., stock number, name, quantity, or unit cost).

(f) Conclusion or results of the comparison or analysis. The conclusion or results should contain the following: a column displaying the variances or discrepant condition (expressed in quantities); a column showing the cause for discrepant conditions (enter a letter or number in the column that relates to appropriately referenced footnotes to identify the causes); and a narrative conclusion summarizing the extent of identified discrepant conditions (materiality, frequency, cause, impact, etc.).

(3) Additional Considerations. Consider the additional information identified below in preparing exhibits and schedules (and other supporting working papers).

(a) Neatness and clarity are essential elements of all working papers and are particularly critical to develop meaningful and understandable exhibits and schedules.

(b) Properly hyperlink (cross reference) summary working papers (Exceptions) to the related exhibits, schedules, and TeamMate Procedures.

(c) Keep footnotes simple. Clearly explain or define footnotes on the page/worksheet they appear or in a separate legend on the first or last page/worksheet of the schedule.

c. Working Paper Hyperlinks. Auditors will hyperlink (cross-reference):

(1) Supporting working papers/Procedures to interdependent supporting working papers (those supporting working papers used as a source to prepare other supporting working papers). ***NOTE:*** Remember to download web-based documents to your computer where possible before hyperlinking.

(2) Audit program steps to supporting working papers/Procedures.

4.5. Summary Working Papers (TeamMate Exceptions). Prepare Exceptions that summarize the data contained in the detail working papers/Procedures (audit program step responses, control assessments, schedules, exhibits, and other related documents). Follow the guidance below on required summary working paper elements. Proper use of summary working papers/Exceptions will significantly facilitate both report writing and working paper reviews.

a. Objective/Condition.

(1) The auditor will specifically state in the objective/condition tab what he or she expected to accomplish and why. When applicable, the auditor will indicate the general criteria (quantity, percentage, regulatory requirement, etc.) used to determine whether a deficient condition existed. A clearly defined objective is imperative as it establishes the parameters within which the auditor performed subsequent work. An objective such as "Reviewed DeCA Forms XXX, Travel Authorization, for the period January 1 through March 31 YYYY" is incomplete because it does not state what the auditor expected to determine or accomplish as a result of the review. Instead, an objective such as "Reviewed DeCA Forms XXX, Travel Authorization, for the period January 1 through March 31 YYYY to determine whether all travel authorizations were properly approved." is a complete objective. ***NOTE:*** If the auditor adequately stated the objective in the audit program step, then a hyperlink between the program step and the Exception will suffice.

(2) The auditor will also state the answer to the objective (condition element of the finding). This element will always state the positive or negative condition disclosed as a result of the detailed work performed. Ideally, this will also be the focus sentence for the audit results paragraph in the audit report. ***NOTE:*** Include positive (deficiency-free) as well as negative (deficient) conditions. For example, if the auditor found that "management established adequate inventory procedures to ensure a reliable inventory," "testing disclosed no errors," etc., so state in the condition. The word "none" is not acceptable to describe a positive condition. In addition to answering the objective, the auditor will provide specific details (support), to include specific examples or a schedule that highlights the magnitude of the deficiency. Provide support for positive as well as negative conditions.

b. Cause. This is the root cause (weak or absent controls or reasons for noncompliance with existing controls) of the deficient condition and is the element of the audit result your recommendation addresses. If the condition is positive, the cause paragraph is not applicable.

c. Impact/Effect. This element describes the significance of the finding and identifies Potential Monetary Benefits (PMB), if any. If no impact exists, either real or potential, then the finding is not reportable. If the condition is positive, the impact paragraph is not applicable.

(1) If PMB is identified, the detail working papers will clearly indicate how the auditor computed the savings, including any rationale used in developing the PMB. For calculating and reporting PMB, "see reference (e)".

(2) For negative conditions that have weak or limited impact to management, include "minor" or "oral" as applicable, after the related recommendation in the working papers. Use "minor" if planning to issue a Letter of Minor Findings Memorandum (paragraph **5.3.a.4**) containing the condition. Use "oral" if out-briefing the finding but not including it in a report or memorandum.

d. Criteria/Background. These are the guidelines (directives, good business practices, law, etc.) and other information you used to evaluate the audited function. In addition, you may need to include function-specific data that would be important for the audit report reader to know to better appreciate the

significance of the finding. For example, you may want to state that the function had recently undergone reorganization, or that the Commissary Advanced Resale Transaction System (CARTS) front-end system had only been in use for three months at the location audited, or a Black Belt assessment resulted in recommendation to improve program internal controls. If the auditor adequately stated the criteria or applicable background data in the audit program or related Procedures section, then a hyperlink between that information and the Exception will suffice.

e. Recommendations. This paragraph must address correction of the root cause of the deficient condition as well as correction of any specific deficiencies identified in the "support" for the condition element. For example, if key accountable internal controls were missing or weak, you would have recommendations to establish and implement or strengthen applicable controls. If, as part of the condition support, the auditor concluded that accountable keys were kept on a table in the cash officer for anyone's use without having to personally sign for the key, then the auditor would make a recommendation to terminate this practice and require all authorized personnel to sign for keys. If the condition is positive, the recommendations paragraph is not applicable.

f. Summary/Exception Hyperlinks. Auditors will hyperlink (cross-reference) all pertinent elements of the Exception to the supporting (Procedures) working papers, exhibits, schedules, etc.

g. Exception Working Paper Quality Check. Use the following checklist to assess the adequacy of your Exception working papers:

(1) Objective. Does the objective clearly state what you expected to accomplish and why? If referenced to an audit program step, does the step sufficiently describe the objective?

(2) Condition. Does the first (topic) sentence state the positive or negative condition disclosed as a result of the audit work performed (answer the objective)?

(3) Support. Does the support provide appropriate and sufficient evidence, to include examples, to validate the condition statement and provide the proper perspective?

(4) Cause. Is this the root cause (weak or absent controls or reasons for noncompliance with existing controls) of the deficient condition?

(5) Impact/Effect. Does this explain the full significance of the finding? Are PMB computations and rationale used to develop PMB properly documented?

(6) Criteria/Background. Does the criteria/background identify all aspects of the required or desired state against which you measured actual performance for each objective?

(7) Recommendations. Do the recommendations address the root cause of the condition? If applicable, do the recommendations also correct specific deficiencies identified in the support element of the findings paragraph?

4.6. Changes During Audit Execution. If it becomes necessary to revise (add or delete) audit objectives during audit execution, or to terminate the audit project without issuing a report, follow the guidance in the paragraphs below.

a. Revisions to Objectives. If, during the course of answering the audit objectives, audit work leads to additional review areas, notify management orally of the additional objectives. When revisions to the audit objectives cause milestone or resource changes, obtain supervisory auditor approval for the changes and update milestones accordingly.

b. Audit Program Changes. Revise the audit program to add steps to accomplish the new objectives. The supervisory auditor must approve revisions to the audit program.

c. Early Termination. If it becomes necessary to close out an announced audit without a report, obtain IR Director's approval to close the project. Issue a closure memorandum following the guidance in paragraph **3.7.g.(2)** and update TeamMate.

4.7. Data Reliability Documentation. The auditor will prepare a separately indexed working paper/Procedure entitled "Computer-Processed Data Reliability Assessment" to document the data reliability assessment (or reasons for not performing the assessment). At a minimum, the data reliability assessment working paper will indicate: (a) name of the computer system or database from which auditors extracted data; (b) extent of data testing (types of tests) performed to determine the data's reliability; (c) results of tests conducted to assess data reliability; and, (d) auditor conclusion on data reliability. Hyperlink the data reliability assessment working paper to the supporting working papers. If planning results included in step 9.a of the Planning Program (**Appendix D**) apply, use these results for this working paper and include the required hyperlinks and narrative explanation. If the auditor did not test the data, the auditor will document the reasons in the working papers and explain the impact on the results of the audit.

4.8. Audit Sampling Documentation. Auditors will document in TeamMate Procedures the methodology, computations, and inferences made from CAATTs or statistical samples used in the audit.

a. Statistical Sampling. Auditors using statistical sampling should identify the depth of data selected for review; criteria used for initial selections; criteria used to narrow down the initial selection (if applicable); and techniques used to select, analyze, and evaluate the data. In addition, the auditor should identify the size of the universe from which the sample was selected. ***NOTE:*** If the auditor used various samples or sampling methods to achieve the audit objectives, and the deficient conditions relate to different samples, include the related sample data with the applicable condition provided in the Exception.

b. Non-Statistical Sampling. For non-statistical (judgmental) samples, identify sample size, what was sampled (line items, units, transactions, etc.), dollar value of the sample size (if applicable), and time period relating to the universe from which the sample was selected. Also, if the non-statistical sample includes only data with special characteristics or within certain parameters, identify the characteristics or parameters. (Although not mandatory for judgmental sampling, you should also identify the size of the universe if determinable with minimum effort.)

4.9. Validating Audit Results. The auditor will discuss (validate) audit findings with management while conducting the audit--and not wait to the end of the audit. Early validation of the findings will assist the auditor in obtaining management's concurrence with the audit conclusions, and will provide operating personnel the opportunity to correct the identified problems before the audit is completed. The auditor will:

a. Meet face-to-face with function personnel throughout the audit to validate the accuracy of audit data and conclusions. If function personnel believe the audit conclusions are inaccurate, or the auditor has misinterpreted specific data, the auditor should conduct additional audit tests, as necessary, to re-verify data accuracy and reassess the accuracy of the conclusions.

b. Discuss possible causes and proposed recommendations with management during the validation discussions. If the auditor and management personnel agree on a course of action that will correct the identified problems, then management can begin work during the audit to implement the agreed-to actions. If management completes action and corrects the problem during the audit, the auditor can note this achievement in the audit report.

c. Conduct additional audit tests, as necessary, or examine documentary evidence to determine the validity of management officials' statements that may impact the context, perspective, or accuracy of audit results.

d. Document the validation discussions in the TeamMate working papers.

CHAPTER 5

DRAFT REPORT

5.1. Overview. Issue a report (either positive or with findings) on all audits, including audits terminated at the end of the planning phase or curtailed before completing execution, where the auditor gathered sufficient and appropriate evidence to support an opinion. Auditors will use the guidance in this chapter to prepare, process, issue, and assure the quality of audit reports.

5.2. Draft Report Responsibilities.

a. The IR Director shall:

(1) Review each draft report and confirm the report is logically sound and opinions, conclusions, and recommendations are reasonable, material, and consistent with the factual information presented.

(2) Approve each draft report for discussion and subsequent release.

b. The IR Deputy Director shall:

(1) Keep the IR Director informed on progress in completing the draft report.

(2) Review TeamMate coaching notes.

(3) Elevate finished draft reports to the IR Director for discussion and release approval. The IR Deputy, lead auditor, and auditor share responsibility for the accuracy, validity, and quality of the draft report submitted to the IR Director for review.

(4) Ensure the independent reference reviewer (IRR) statement (**Appendix H**) is included in the appropriate TeamMate folder.

(5) Attend report exit conferences with the auditor and lead auditor as appropriate. If it is not possible for the lead auditor to attend, the IR Deputy will attend.

(6) Release the Draft Report

c. The lead auditor shall:

(1) Monitor auditor progress in completing draft reports and ensure reports are completed in a timely manner. Keep the IR Deputy informed on progress in completing the draft report.

(2) Review and ensure draft reports meet Yellow Book reporting standards (Reference (b)). Record comments electronically on draft reports, using TeamMate coaching notes.

(3) Elevate draft reports to the IR Deputy for discussion. The lead auditor and auditor share responsibility for the accuracy, validity, and quality of the draft report submitted to the IR Deputy for review.

(4) Ensure the auditor thoroughly cross references the IR Director-approved discussion draft to Exception and Procedures working papers in TeamMate, as appropriate.

(5) Ensure a qualified auditor independently reference and review the draft report before discussing the report with management. Review and sign the IRR statement (**AppendixH**) and include in the appropriate TeamMate folder.

(6) Attend all report exit conferences with the auditor.

d. The auditor shall:

(1) Prepare the draft report IAW Yellow Book standards and DeCA IR policies and procedures (References (b) and (a)). The assigned auditor has primary responsibility for the accuracy, validity, and quality of the original draft report submitted for review, and shares responsibility with the lead auditor for all subsequent revisions.

(2) Thoroughly cross-reference the IR Director-approved draft report to summary/Exception and supporting/Procedures working papers.

(3) Provide the cross-referenced draft report and supporting working papers to the assigned IRR for verification, and answer the IRR comments via TeamMate coaching notes.

(4) Out-brief the draft report with management, and revise the report as necessary based on the results of discussions.

(5) Notify the lead auditor when making report changes that require re-referencing; i.e., facts and figures and/or conclusions change.

5.3. Audit Report General Requirements.

a. Report Criteria. Issue reports, or close projects without a report, according to the following criteria:

(1) Audit Program Completed. Issue an audit report on all projects for which auditors completed the audit program.

(2) Projects Cancelled Before Completion of the Audit Program.

(a) Report. Issue an audit report on projects cancelled before completing the audit program when sufficient work was performed to reach a conclusion.

(b) No Report. If sufficient work was not performed to reach a conclusion, obtain the IR Director's approval to close the project without a report. Issue a closure memorandum to cancel the project following the guidance in paragraph **3.7.g.(2).(b)** and update TeamMate.

(3) Fact-Gathering Projects. Close out fact-gathering/workload survey efforts with a memorandum addressed to the head of the functional area visited, as appropriate.

(4) Letter of Minor Findings. Use the Letter of Minor Findings to report audit results that do not warrant inclusion in a report of audit but which may develop into significant problems if not corrected.

Include a statement in the overall evaluation of the related audit report, if one is issued, similar to the following: "We noted certain conditions of less significance that we reported to the management of (name of entity) in a separate memorandum dated XXXXXXX."

a. Information. Reports will include a page of miscellaneous additional information.

(1) Additional Information. A contact is listed to receive additional copies.

(2) Suggestions for Audits. A phone number, email, and mailing address are listed for submission of audit suggestions.

(3) Fraud, Waste and Abuse. The DeCA Fraud, Waste and Abuse Hotline number is listed.

(4) Acronyms and Abbreviations. A listing of acronyms and abbreviations is included.

5.4. Report Format-Executive Summary. The executive summary provides the reader a brief overview of the audit and generally consists of five sections: introduction, objectives, results, recommendations, and management's response. To the extent practical, the summary should be limited to one page.

a. Introduction. The introduction section should be brief and provide only: (a) information needed to understand the audit conclusions; and, (b) perspective on the magnitude of the audit entity. Provide additional background information in the body of the report. For follow-up reports, identify the prior report number and date.

b. Objectives. In the objectives section, explain why the audit was performed and state the audit's overall objective and major sub-objectives. The objectives identified in this section should be similar to, or the same as, the objectives shown in the audit announcement memorandum/email. If the audit was a requested audit, the objectives paragraph should note this fact.

c. Results. The results section should address the overall objective of the audit and the sub-objectives in the same order they are listed in the objectives section. Provide positive as well as negative audit results, and list the positive results first. ***NOTE***: For reports that have a mix of clear and deficient conditions, it is sufficient to identify the clear conditions in the executive summary without further discussion in the body of the report. For reports that do not have deficient conditions, briefly discuss the clear conditions in the body of the report.

(1) The first sentence in the results section main paragraph must contain a statement assessing the overall audit objective as stated in the objective paragraph.

(2) Succeeding subparagraphs will provide the audit results for each audit area (sub-objective). For each audit result, include a results paragraph that briefly summarizes the condition and impact.

(3) Identify repeat deficiencies as "repeat findings" along with the related report references. Reference (paragraph **5.10.a.(1)**).

(4) If issuing a related Letter of Minor Findings Memorandum, refer to it in the overall results paragraph as follows: "We noted certain findings of less significance that we reported to management of the (name of entity) in a separate memorandum dated Month, DD 20X."

(5) For positive reports (no deficiencies), provide sufficient information to demonstrate that the area had no deficiencies.

d. Management Corrective Actions. This paragraph is optional. If desired, the audit team can use this paragraph to give management credit for the actions they already took to correct deficiencies the auditor identified during the audit. Keep the paragraph brief and conclude with the following statement: "(Reference page X for specific corrective actions.)."

e. Recommendations. Indicate the number and general nature of the recommendations.

5.5. Cover Letter.

a. The cover letter precedes the Executive Summary and is signed by the IR Director.

b. The cover letter identifies the addressees of the report as well as the functional area audited and locations, if applicable.

c. The cover letter will include the following statement regarding government auditing standards:

We conducted this audit IAW generally accepted government auditing standards.

d. Finally, the cover letter will state the inclusive dates of the audit and identify the primary audit staff and their contact information.

5.6. Report Format. All reports, including clear reports, will present each major audit result and group related audit results together. Normally group by sub-objective and arrange conditions in the order of their relative importance. Keep titles as short as possible. Identify the subject for discussion rather than synopsize the results. For instance, use "Cash Controls" not "Lack of Control Over Cash". ***NOTE***: Use captions on main segments, paragraphs, and subparagraphs as needed, to draw the reader's attention to specific information. When used, boldface main paragraph captions and underline subparagraph captions.

a. Synopsis (Optional). The audit team is highly encouraged to include a synopsis for report sections that address more than one finding or contain one finding that is long and complex. If included, the synopsis will briefly summarize the findings (condition, cause, and impact) in the same order as they are discussed in the report.

b. Background (Optional). Limit the background paragraph, if used, to information needed to understand the audit results and criteria (internal controls) used to conduct the audit. Do not provide extraneous information that does not facilitate an understanding of the results section issues. Include such information in Appendix I of the report, if considered important.

c. Audit Results. Each audit result will be titled (keep brief) and be captioned "Finding" and include "Management Corrective Actions" (if applicable). Sections for recommendations, management comments, and evaluation of management comments are at the end of the report, but before any Appendixes.

(1) Condition. Include all necessary facts using specific examples or cases to demonstrate the condition, promote an adequate understanding of the matters reported, and provide convincing but fair

presentations in proper perspective. Use tables or supporting schedules to provide detailed statistical data and provide the reader a greater understanding of and appreciation for the magnitude of the problem. ***NOTE:*** Do not use personal information, such as names or social security numbers, or other extraneous information in audit reports.

(a) The first (topic) sentence should focus the reader on the condition noted as well as the relative significance of the condition. Describe the condition found using past tense and active voice.

(b) Clearly explain the nature, extent, and frequency of the deficiencies. Include all necessary facts using specific examples or cases to demonstrate the deficiency. Use supporting schedules to provide detailed statistical data or show the problem's magnitude. Identify locations where auditors found the condition. State to what extent (quantity, percentage, etc.) management deviated from the established standard.

(c) State findings clearly and concisely using nontechnical terms to the maximum extent possible. Avoid the use of vague or imprecise terminology (e.g., some, not many, not always). Round numbers to enhance clarity of presentation. Also, avoid the use of excessively lengthy paragraphs. Use subparagraphs and captions, when appropriate, to assist the reader's understanding.

(2) Cause. Identify the root cause first followed by the contributing causes. Provide the related criteria (if not already provided in the background). Do not include a cause for which there is no recommendation.

(a) The root cause is normally weak or absent controls or reasons for noncompliance with existing controls. It is the situation or procedure which, when changed or corrected, will solve the problem or condition. If the activity needs to improve controls, so state. If personnel did not follow directives, explain why not.

(b) Causes will not be subjective (i.e., the auditor should not normally indicate lack of awareness, misinterpretation of guidance, operating personnel beliefs, etc. caused the problem). It should be clear the discrepant conditions noted in the audit could have occurred as a result of the cited causes.

(3) Impact/Effect. Express impact in terms of dollars or number of deficiencies in a population. If using statistical sampling, state the impact in terms of projected errors. State the impact in positive terms when possible, (e.g., "eliminating the problem will provide benefits") instead of negative terms (e.g., "failure to correct will create further problems").

(a) In performance audits, reductions in efficiency and economy or shortfalls in obtaining program objectives are appropriate measures of impact. Express these in quantitative terms such as dollars, number of personnel, units of production, quantities of material, number of transactions, or elapsed time.

(b) Provide specific examples when possible. If you cannot ascertain the actual impact, you can sometimes use potential or inferred impact to show the significance of the condition.

(c) If PMB is identified, include the dollar amount in the audit results paragraph, and state how the PMB was determined.

(d) When using statistical sampling, state the impact in terms of projected errors (e.g., "we estimate management processed between 800 and 1,000 of the 2,000 transactions late"). When using

judgmental sampling, just show test results without stating or implying an estimate or projection (e.g., "we identified 50 of 100 work orders with labor charges exceeding established limits").

(4) Management Corrective Actions. When appropriate, include in the report significant discrepancies disclosed and corrected during the audit along with an explanation of the corrective action taken. Use the caption "Management Corrective Action" for these paragraphs, and be sure to verify that management did, in fact, correct the discrepancy; the auditor must document the verification work accomplished in the project working paper files. A completed corrective action is defined as a completed action (not promised or initiated) that corrects the cited condition and eliminates the need for a recommendation.

(a) The following is an example of typical actions that should be reported as corrective actions completed during the audit: "During the audit, management deobligated the unliquidated obligation (ULO) balances and trained personnel to properly perform the required tri-annual review." In this example, management completed two actions which corrected the cited condition and addressed the cause cited in the audit results.

(b) The following example is an action that should not be reported as a corrective action completed during the audit: "During the audit, management initiated action to obtain funding to use in correcting the vulnerabilities cited above." In this example, the action taken ensured neither funding would be obtained nor the vulnerabilities would be corrected.

(5) Recommendations. Recommendations should immediately follow the results section and be presented in same order as their related findings. The recommendations should first address the deficient condition, if applicable, then the root cause and other contributing causes, and finally any PMB claimed. Do not include a recommendation that does not address either a cause or condition statement.

(a) Recommendation Requirements. Number recommendations consecutively. Each recommendation should:

1 Require only one management action, even though the report may direct several related recommendations to the same management official. If more than one independent management action is required, restructure into separate, numbered recommendations.

2 Normally direct recommendations one position higher than the staff/official position (not an individual's name) responsible for taking the corrective action. Do not direct recommendations higher than the report addressee.

3 Recommendation Logic. The relationship between the recommendations and the condition or the cause of the condition must be clear and logical. Each recommendation should relate to either a cause or a condition, and conversely each cause should have a recommendation. In addition,

4 Recommend actions that are definite and avoid, to the extent possible, such words as ensure, consider, perform a study, emphasize, and reevaluate.

5 Make two recommendations if the management action may take an unusual length of time to complete (e.g., revising a directive). The first recommendation should provide a permanent fix for the root cause of the deficient condition; the second should address interim procedures to temporarily control the deficient condition until management implements the permanent fix.

(6) Management Comments. Government auditing standards require reporting the views of responsible management officials. Consequently, DeCA IR requires management comments for each audit result (finding), recommendation, and PMB included in the audit report. If management comments are overly long, you may paraphrase the comments and include them in their entirety as a report attachment.

(a) Include management comments verbatim in the final report immediately following the recommendations. In the draft report, provide a paragraph caption and reserve space for the management comments immediately following the recommendations.

(b) Inclusion of management comments in a no finding report is optional. A no finding report does not identify any deficient conditions. Conversely, a report that identifies deficient conditions but does not contain recommendations (e.g., management corrected the identified problems during the audit) must include a Management Comments paragraph.

(7) Evaluation of Management Comments. The final report will include an evaluation addressing the responsiveness of management comments after the Management Comments paragraph. In the draft report, provide a paragraph caption and reserve space for the audit evaluation statement. Do not include an Evaluation of Managements Comments in clear reports.

5.7. Report Format-Appendices. Include the following appendices with each report: Background Information (optional), Glossary of Acronyms (optional), and General Audit Information (Audit Scope and Methodology, Data Reliability, Prior Audit Coverage, and Discussions with Management Officials). ***NOTE:*** The following appendix may also be required: Management Comments (final report) (paragraph **6.3**).

a. Background Information. This optional appendix, if included in the report, will be the first appendix. Use this appendix to provide: (a) pertinent background information concerning the area reviewed; and, (b) detailed information readers need to understand the report's issues and results. Normally, this appendix will not repeat information provided earlier in the Executive Summary or the results background paragraphs. If not discussed earlier in the report, include criteria (laws and regulatory requirements) the auditor used to evaluate operations and management effectiveness. If the auditor's criteria differs from management's, explain the auditor's rationale for using different criteria.

b. General Audit Information Appendix. The general audit information appendix indicates how the audit was conducted and provides other important audit parameters. The prior audit coverage section will identify prior audits with similar objectives that the audit team followed up on. If applicable, this appendix will also include a section titled "Related Reports" that includes reports of interest in the same area as the current audit that the audit team did not follow up on.

(1) Audit Scope and Methodology Section. The audit scope and methodology section will include, at a minimum, audit coverage, sampling methodology, and applicable directives and laws.

(a) Audit Coverage. The audit coverage paragraphs should contain the following:

1 Work Performed. Clearly indicate the parameters of the audit and the methodology used in the review so the reader fully understands the work both performed and not performed. Reference the Yellow Book, (paragraphs 7.09 through 7.12 and 8.09 through 8.13) (Rerference (b)).

2 Scope Limitation. If the audit scope was limited for any reason, explain why and include qualifying statements when necessary to ensure the reader will understand the extent of audit coverage and the basis for the auditor's opinion.

3 Audit Time Period. Indicate when the audit was performed (from month and year planning work began to month and year execution ended), and that the report was conducted IAW generally accepted government auditing standards (see 6.5.).

4 Documents Reviewed. Identify the documents (title and time period) reviewed during the audit. The following examples illustrate this requirement: (a) "This audit covered front-end department operations transactions during the 4-month period ending 31 July 200X"; (b) "This audit included an evaluation of travel authorization internal controls for the 3-month period ending 30 June 200X"; or, (c) "We reviewed vehicle utilization records covering FY 200X."

(b) Sampling Methodology. Follow the guidance below for reporting use (or non-use) of sampling and computer assisted auditing tools and techniques (CAATTS).

1 Sampling. If the audit involved sampling, indicate in the report the parameters (number of line items, units, dollar values, transactions, etc.) relating to the sample and to the universe from which you selected the sample (if determinable). Also, indicate the period of time covered. Further, indicate how the sample was used (e.g., projected to the entire universe to estimate a PMB or error rate or provide an overall assessment about an entity). If various samples, sampling methods, etc., were used to achieve the audit objectives that resulted in reportable conditions, consider including the sample information in the related finding paragraph instead of in the General Audit Information Appendix. For judgmental samples, identify the special characteristics or parameters used in selecting the samples.

2 CAATTS. If the audit involved CAATTs, specifically say so and explain the tools used; depth of data selected for review; criteria used for initial selection; criteria used to narrow down the initial selection (if applicable); and techniques used to select, analyze, and evaluate the data.

3 Non-Use of Sampling or CAATTS. If sampling or CAATTs was not used, so state. For example, state: "We did not use statistical or judgmental samples or computer assisted auditing tools and techniques to analyze data or project results in this audit."

4 Data Reliability. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.

(a) Sufficiently Reliable Data. Present your basis for assessing the data as sufficiently reliable, given the research questions and intended use of the data. This presentation includes: (1) noting what kind of assessment you relied on; (2) explaining the steps in the assessment; and, (3) disclosing any data limitations. Such disclosure includes

- telling why using the data would not lead to an incorrect or unintentional message,
- explaining how limitations could affect any expansion of the message, and
- pointing out that any data limitations are minor in the context of the engagement

(b) Not Sufficiently Reliable Data. Present your basis for assessing the data as not sufficiently reliable, given the research questions and intended use of the data. This presentation should include what kind of assessment you relied on, with an explanation of the steps in the assessment. In this explanation: (1) describe the problems with the data, as well as why using the data would probably lead to an incorrect or unintentional message; and, (2) state that the data problems are significant or potentially significant. In addition, if the report contains a conclusion or recommendation supported by evidence other than these data, state that fact. Finally, if the data you assessed are not sufficiently reliable, you should include this finding in the report and recommend that the audited entity take corrective action.

(c) Data of Undetermined Reliability. Present your basis for assessing the reliability of the data as undetermined. Include such factors as short time frames, the deletion of original computer files, and the lack of access to needed documents. Explain the reasonableness of using the data, for example: These are the only available data on the subject; the data are widely used by outside experts or policymakers; or the data are supported by credible corroborating evidence. In addition, make the limitations of the data clear, so that incorrect or unintentional conclusions will not be drawn from the data. For example, indicate how the use of these data could lead to an incorrect or unintentional message. Finally, if the report contains a conclusion or recommendation supported by evidence other than these data, state that fact.

(d) If computer processed data was not used or relied on, so state. For example, state: "We did not use or rely on computer processed data to support conclusions in this audit."

(e) In the cross-referenced draft report, hyperlink the data reliability statement to the supporting working paper (paragraph **5.2.c.(4)**).

(3) Prior Audit Coverage. Prior audit coverage applies when the current audit's objectives are the same as or similar to a prior DeCA IR, DoD IG, or GAO audit, as determined in the planning phase (paragraphs **3.5.b, 3.7.e** and **3.8.d**). It does not apply to audits accomplished specifically to follow up on prior audit reports.

(a) Identify prior reports that required follow-up work in the prior audit coverage section. Do not include related reports with dissimilar objectives. For audits listed in this section, include the following information:

1 Indicate if management satisfactorily implemented the recommended corrective actions.

2 State if management actions corrected the problems.

3 If the audit results in a "repeat" finding, state so in this paragraph, include it as a regular audit result (finding) in the body of the report, and reference the audit results paragraph in this paragraph. See paragraph **5.10.a.(1)** for guidance on identifying and reporting "repeat" findings.

(b) If no audits with similar objectives existed, so state. For example, "Our review of audit files and contact with function officials disclosed no other audit reports within the last five years that related to our audit objectives."

(4) Discussions with Responsible Officials. The audit team must discuss the draft report with responsible management officials before issuing the report for comment (paragraph **4.9**). In the report, include a paragraph stating with whom (by position title and organization) the audit team discussed or coordinated the report. For example, "We discussed this report with the Store Director, front-end cash

office personnel, and other interested officials, at the XXXX commissary." Also, indicate the date (day, month, and year) you issued management the draft report. In the final report, indicate the date you received management's written comments (oral comments for a clear report).

5.8. Report Quality Assurance.

a. Cross Referencing. The auditor will hyperlink (cross reference) the IR Director-approved draft report (paragraph **5.2.a.(2)**) to the working papers. Hyperlink/bookmark to the specific point in the working papers where the support is located. When preparing working papers manually, cross reference the draft report by annotating in the report margins where supporting information can be found in the working papers and, in the working paper margins, the report paragraph dealing with the working paper item.

(1) The auditor will hyperlink the report to TeamMate Exceptions working papers. As discussed in paragraph **4.4.c**, the auditor should already have cross referenced from the Exceptions to the supporting (detail) (Procedures) working papers. ***NOTE:*** The auditor may elect to cross reference directly to supporting working papers. While not preferred, this procedure is allowed so long as the auditor has prepared an Exception and hyperlinked it IAW paragraph **4.4.c**. In some instances, the auditor will have to cross reference to a supporting working paper because the information is only in a supporting working paper (e.g., background and scope information).

(2) It is only necessary for the auditor to cross reference the draft report once. Normally, the auditor will cross reference the approved discussion draft (the draft approved by the IR Director to discuss with management). The auditor must also cross reference any subsequent changes made to the discussion draft report after it is independently referenced and reviewed.

(3) Except as noted in (paragraph **5.8.a.(4))**, the auditor will hyperlink all reported figures, dates, direct quotations, statements of fact, and assertions contained in the executive summary, report body, and appendices. Examples of items auditors sometimes overlook but that require hyper linking include: positive statements in the executive summary and report body; statements in clear reports that management orally agreed with the results; background information, including criteria; causes for audit results; management corrective actions (actions management took during the audit to correct audit-identified deficiencies); and information in the General Audit Information Appendix (work performed information, data reliability statement, prior audit coverage statement, etc.).

(4) It is not necessary to hyperlink (cross-reference) repeated information more than once. For example, it is not necessary to hyperlink information contained in the executive summary that is repeated in the body of the report if the same information in the body of the report is hyperlinked to working paper support.

b. Independent Reference Reviewing. Reference reviewing is an independent review of the draft report and working paper files by a person not associated with the audit to verify that the report is accurate and that documentary evidence supports specific statements of fact.

(1) When to Reference Review. Independently reference review the IR Director-approved draft report before releasing the report for comment, as noted in draft report processing, (paragraph **5.9**). The IR Director may require earlier referencing; however, that will require the implementation of strong controls to ensure subsequent changes to the report are re-referenced before the report is released or discussed with management.

(2) Selecting the IRR. The IRR must be a qualified auditor competent to do the particular referencing assignment. This competence depends on the individual's independence, objectivity, experience, and knowledge of DeCA IR referencing and reporting requirements. Do not assign auditor trainees to independently reference review draft audit reports.

(3) IRR Authority. When IRRs do not believe the evidence provides satisfactory support, reference reviewers have the authority to require additional evidence they consider acceptable. The auditor and lead auditor will provide all possible assistance in locating material, and should be accessible for explanations (any oral explanations provided should be added to the working papers). However, working papers should normally "stand on their own". That is, IRRs should not have to continually ask the auditor for assistance in finding evidence supporting facts and figures in the report or request oral explanation of information included in working papers.

(4) IRR Checklist. IRRs will use the IRR Checklist at Appendix H. After completion, file the completed IRR Checklist in the Report-Processing folder with the IRR Record in TeamMate.

(5) IRR Responsibilities. The IRR shall:

(a) Trace all figures, dates, direct quotations, statements of fact, and auditor assertions in the hyperlinked (cross-referenced) discussion draft report through the summary working papers/Exceptions to the supporting working papers/Procedures to determine that they are consistent with and supported by the working papers. ***NOTE***: If the IRR encounters information that the auditor did not hyperlink, except repeated information (paragraph **5.8.a.(4)**), then the IRR will return the report and working papers to the auditor so that he or she can finish hyper linking. The IRR will not omit items from the verification process because the auditor did not completely hyperlink the report.

(b) Place a mark (using the TeamMate tickmark buttons) next to each figure and statement of fact verified in the report.

(c) Verify the mathematical accuracy of tables, charts, figures, and schedules included in the report.

(d) Be alert to statements in the report that seem illogical or lack clarity. If the IRR does not understand what the auditor is trying to say, there is a good chance that management will not understand either.

(e) Ensure the lead auditor has reviewed all supporting working papers and cleared all TeamMate coaching notes. The IRR will not sign the IRR Record, certifying report accuracy (paragraph **5.8.b.1**), until the lead auditor has finished reviewing and signing off on the working papers and clearing the coaching notes.

(f) Use TeamMate coaching notes (paragraph **5.8.b.(1)**) to document all comments, questions, and opinions pertaining to the review. ***NOTE:*** If the IRR used the IRR Checklist (paragraph **5.8.b.(4)**), hyperlink the IRR Record to the checklist.

(6) Auditor Responsibilities. The auditor shall:

(a) Prepare and maintain working papers IAW Yellow Book standards and paragraph **1.3** of this manual.

(b) Cross-reference the IR Director-approved discussion draft report (paragraph **5.8.a**).

(c) Respond to each referencing note, indicating agreement or disagreement, and specify the actions that have or will be taken to correct the discrepancy. For example, the auditor may add additional support (to the working papers or cross-referencing) or change the draft report.

(d) Elevate points of disagreement to the lead auditor for review.

(e) Notify the lead auditor when making significant changes to the report after completing independent reference review, and cross-referencing the changes to the working papers.

(f) Retain the independently referenced and reviewed draft report and IRR record in the applicable folder in TeamMate.

(7) Lead Auditor Responsibilities. The lead auditor shall:

(a) Review all project working papers and the draft report for technical accuracy and consistency before initiating the referencing process.

(b) Select the IRR for each project and assure the IRR understands his or her responsibilities as discussed in this chapter. If the person assigned is a first-time IRR, review with that person the requirements of this instruction.

(c) Review the IRR's comments, verify changes in the report resulting from the referencing review, and resolve any disagreements between the auditor and IRR. The lead auditor will document the rationale underlying resolved disagreements in TeamMate coaching notes.

(d) Assure all subsequent significant changes to the report are independently referenced and reviewed IAW paragraph **5.8.b.(9)**.

(8) IR Deputy Director Responsibilities. The IR Deputy shall, during working paper reviews (paragraph **2.3.b.(7)**), confirm that the independent referencing requirements were accomplished IAW DeCA IR policy.

(9) IRR Record. The IRR will document all comments, questions, and discrepancies in TeamMate coaching notes. The auditor will clearly accept, modify, or reject each point made in the coaching notes. The auditor will also identify any resulting changes made to the draft report. For any rejected points, the auditor will include a brief explanation and elevate to the supervisory auditor for a decision. The lead auditor will resolve all disagreements and document the rationale for his or her decisions in the coaching notes.

(a) When reference reviewing is complete, the IRR, auditor, and lead auditor will sign off on the certification statement located in the same TeamMate folder: "I have completed referencing the draft audit report for Project XXXXXXXXX, IAW requirements established in DeCA Manual 90-5. All suggestions and comments have been satisfactorily resolved. Source data included in the working papers properly support the contents and accuracy of the draft report."

(b) The auditor will file the referenced report, IRR certification statement, and IRR Checklist (if used) in the TeamMate Independent Reference Reviewed Report folder.

(c) Re-referencing. If the audit team makes significant changes to the report after completing independent reference reviewing, the lead auditor must select an independent person to re-reference and review the changed or added material. Significant changes include changes in scope (e.g., audit universe or sample size), changes in condition (e.g., differences in number, location, or amounts of deficiencies), new or changed examples, and any statements added to report management corrective actions. The lead auditor will determine when to re-reference and review, and what changes in the report need re-referencing and reviewing.

(9) Audit Report Checklist. As an additional quality control, lead auditors and the IR Deputy are encouraged (though not required) to use the Audit Report Checklist located at **Appendix G**.

5.9. Draft Report Processing.

a. Discussions. After the IR Director approves the draft report for discussion and it is independently referenced, the audit team will discuss (out-brief) the report with operating personnel, supervisors in the chain of command, and the responsible managers and/or directors. Except for changes resulting from the discussions, the audit team should not further change the audit report without advising officials in charge of the audited activity.

(1) The audit team, in coordination with management, will determine the appropriate officials with whom to discuss the report. Discussions should, at a minimum, reach the FPO or region director or equivalent level.

(2) Before distributing reports electronically to provide advance reading of draft before discussions, ensure the reports are clean copies free of track change markings and report-processing comments.

b. Discussion Records. Document all out-briefing discussions in TeamMate. This documentation should include the following:

(1) Discussion dates, names and positions of attending personnel.

(2) Discussion details.

c. Report Changes. The audit team may revise the draft report as a result of the discussions, to add or change information or to show additional corrective action taken during audit fieldwork. In these instances, the audit team must obtain evidence that verifies the new or changed information or the corrective actions taken and document the results in the working paper files. The new or revised information will require independent referencing. If the audit team makes significant report changes after out-briefing lower level operating personnel, the audit team will: (a) obtain IR Director's approval for the changes; and, (b) notify the lower level operating personnel of the changes.

d. Senior Management Approval. Out-brief applicable senior management officials (region director or FPO) using the final draft and relating lower management's position regarding the findings, recommendations, and potential monetary benefit, if applicable. Obtain indicator of senior management concurrence/nonoccurrence at the out-briefing and document the working papers accordingly.

e. Draft Report Transmittal Memorandum. After discussing the report with management, the auditor makes any agreed-to changes, the lead auditor approves the changes and distributes the completed audit

report to management for comments. The IR Director signs the transmittal memorandum. ***NOTE:*** The title on the transmittal memorandum will agree with the audit announcement memorandum/email. Allow management officials 15 calendar days, on average, to provide their comments.

f. Draft Report Distribution. Transmit the draft report to the audit focal point, (HSO) and applicable management officials of the audited function. Before transmitting the report electronically, ensure it is free of track change markings and report-processing comments.

5.10. Follow-up Audit Reports.

a. Report Attributes. If the follow-up audit discloses the following conditions, take the action indicated.

(1) Repeat Findings. Identify findings as "repeat" if the current conditions are substantially the same as that disclosed by the prior audit. Identify findings as "repeat" whether or not the cause of the current conditions and the recommendations to correct the current conditions are the same as those in the prior report.

(a) If management either implemented the recommendation or took other corrective actions, give management credit in the follow-up audit report for taking action, and identify the reasons management's actions did not correct the deficiency. Because the finding still exists, the original report likely did not identify the root cause.

(b) If management did not act on the recommendation or took action other than indicated in their written response, provide details in the report explaining why management did not act or why management's alternative action did not correct the problem.

(2) New Findings. Auditors conduct follow-up audits to determine whether management corrected the deficiencies cited in earlier reports. Normally, auditors will not develop new findings in follow-up audits. However, it may occasionally happen that the auditor identifies new, reportable conditions during the conduct of a follow-up audit. When this happens, the auditor should prepare one report and clearly differentiate between the repeat and new findings. ***NOTE***: If the follow-up audit did not identify repeat findings, the auditor should put the clear follow-up results in the executive summary and the new findings in the report body.

(3) No Findings. If management implemented the recommendations or took other responsive actions that corrected the deficiencies, and the auditor identified no additional findings related to the follow-up issues, issue a clear report.

b. Follow-up Report Format. Except as noted in the following paragraphs, use the same format for a follow-up report as for a regular report.

(1) Report Title. Begin the report title with "Follow-up Audit, . . ."

(2) Executive Summary.

(a) Introduction. The first paragraph must identify what initiated the follow-up audit and reference the prior report (cite report number, title, and date). For example, "This follow-up audit evaluated management actions taken in response to Audit Report XXXXXXXX, (title), (date)."

(b) Objectives. Identify the recommendations in the original audit report selected for follow-up. For example, "The overall objective was to determine whether management actions implemented in response to Recommendations 1, 2, and 5 in Audit Report XXXXXXXX were effective and corrected the conditions previously reported. In addition, we verified the actual amount of monetary benefits realized as a result of the previous audit."

(c) Results. For the recommendations followed up on, the results paragraph must summarize all deficiencies corrected by management. Also, auditors must clearly identify any repeat deficiencies as "repeat findings" and reference the appropriate audit results (finding) paragraphs of the prior audit report. Identify any benefits (monetary or non-monetary) lost because management did not act or took action that was not adequate to correct the problem.

(3) Prior Audit Coverage. In the Prior Audit Coverage section of the General Audit Information Appendix, include a statement similar to the following: "Other than the report which was the subject of this follow-up audit, our review of audit files and contact with base officials disclosed no other audit report issued to the (audit entity/function) by any audit agency within the last 5 years that related to these same audit objectives."

c. PMB in Follow-up Reports. Do not report PMB that is related to a repeat finding. Auditors can claim and report PMB only one time for each finding because follow-up officials credit the prior report and recommendation with all PMB achieved. The only time an auditor can report a PMB of a follow-up audit report is when the PMB is part of a new finding and recommendation not previously reported.

CHAPTER 6

FINAL REPORT AND POST-AUDIT ACTIONS

6.1. Overview. DeCA IR final audit reports will include the views of responsible management officials as a means of verifying the report's fairness, completeness, and objectivity. Audit teams will use the guidance in this chapter to receive and evaluate management comments, insert management comments and their evaluation of management comments, and process the final report. This chapter contains additional guidance auditors will use to issue final reports when management does not provide comments, track implementation actions on recommendations selected for follow up, and process the customer survey.

6.2. Final Report Responsibilities.

a. The IR Director shall:

(1) Approve the evaluation of management comments.

(2) Sign and distribute the final report. ***NOTE:*** Before signing the final report, the office administrative assistant should review the report for conformance with format and other administrative requirements. The office administrative assistant will prepare cover pages and submit the report for publication.

(3) Establish a control system to ensure significant changes between the referenced and reviewed draft report and the final report are re-referenced and reviewed.

(4) Maintain a log of recommendations the IR Deputy selects for follow-up.

b. The IR Deputy Director shall:

(1) Keep the IR Director informed on progress in receipt and evaluation of management comments.

(2) Review evaluation f management comments.

(3) Appoint an IRR to re-verify any significant changes between the final report and the referenced and reviewed draft report.

(4) Identify significant report recommendations to the IR Director for follow-up audit planning.

c. The lead auditor shall:

(1) Work with management to the extent possible to ensure timely receipt of responsive management comments.

(2) Ensure the auditor thoroughly cross references any significant changes between the final report and the referenced and reviewed draft report.

(3) Review and evaluate management comments to ensure they adequately address findings, recommendations, and PMB in the report and meet the requirements of this instruction.

d. The auditor shall:

(1) Contact applicable management officials approximately 3 workdays before the comments are due to determine if any problems exist with the draft report or with meeting the suspense date. The auditor should also attempt to obtain advance comments from management and provide feedback regarding the responsiveness and adequacy of those comments.

(2) Evaluate management comments to ensure they adequately address findings, recommendations, and PMB in the report and meet the requirements of this instruction.

(3) Advise the lead auditor of any significant report changes (differences between the final report and the independently referenced and reviewed draft report) that need re-referencing.

(4) Finalize the working papers in TeamMate**.**

6.3. Management Comments–General Guidance. To ensure reports are fair, complete, and objective, government auditing standards require auditors to include the views of responsible management officials in the final report.

a. DeCA IR Requirement. Management comments are required for each audit finding, recommendation, and PMB included in the audit report, except as discussed in paragraph **6.3.a.(1)**. Management must provide formal written comments signed by the responsible senior management official or designated representative.

(1) Formal, written management comments are not required for clear reports (reports without discrepant conditions) and for reports with discrepant conditions if management corrected the discrepancies during the audit (i.e., no recommendation required) and the audit did not identify PMB.

(2) If a finding corrected during the audit (i.e., no recommendation required) includes a claimed PMB, obtain written management comments for the PMB. Do not regard silence as agreement. When management agrees with the PMB, the final report must so indicate. If management nonconcurs with the PMB, follow the guidance in paragraph **6.4.e**.

(3) For no-finding reports and reports with no recommendations, auditors will obtain from management oral or e-mail concurrence with the audit results, and include a statement in the final report (paragraph **5.6.c.(6)**) that management officials agreed with the audit results and concurred with the issues as presented in the report. If management orally concurs with the report, document the discussion in the working paper file. If management provides an e-mail response, include a copy of the e-mail in the working papers.

b. Receiving Management Comments. When management comments are received, the auditor and supervisory auditor will ensure the comments are responsive. Specifically, the auditor and supervisory auditor will ensure the management comments indicate concurrence or nonoccurrence with each audit finding, recommendation, and PMB. The comments must also indicate the actions management will take to correct the conditions identified in the report, provide estimated completion dates for all agreed-to actions, and provide the rationale for any disagreements. For comments not meeting the requirements, meet with management to identify and discuss required revisions and establish a revised due date. Document these discussions in the working papers.

c. Electronically Transmitted Management Comments. Management may provide electronically transmitted comments if the system for processing comments contains adequate controls to provide reasonable assurance the applicable senior management official approved the comments.

d. Inserting Management Comments in the Report. Insert management comments in the Management Comments paragraph following the recommendations in paragraph **5.6.c.(5)**. Correct grammar, punctuation, or spelling errors, using caution to preclude changes in meaning or intent.

(1) Incorporate management comments verbatim, as corrected, and begin each management comment paragraph by stating whether management concurred or nonconcurred with the recommendation (e.g., The DeCA East Region Director concurred and stated, ". . . .").

(2) If management comments are excessively long, paraphrase or summarize them in the body of the report and include them verbatim as an appendix to the report. ***NOTE:*** When applicable, place the Management Comments appendix before the General Audit Information appendix.

(3) If management personnel attach copies of various documents (policy memorandums, studies, etc.) to their comments, include the documents in the report as an appendix if the documents add to the reader's understanding of the issues contained in the report. Otherwise, incorporate the documents into the audit report by reference only and file the documents in the working papers.

(4) If an estimated completion date does not appear reasonable, contact management and determine their rationale for arriving at the planned completion date. Unreasonable completion dates can be considered nonresponsive. If planned management action will take more than 12 months to accomplish, ensure management comments provide interim milestones with which to track the completion of management action.

6.4. Evaluating Management Comments. The auditor, lead auditor, and IR Deputy Director will assess whether the management comments adequately address the issues contained in the report, submit the evaluation for approval to the IR Director, and insert the approved evaluation in the final report (paragraph **6.4.g**). If comments are considered nonresponsive, follow the guidance in paragraph **6.4.c**.

a. Management Fully Concurs. If management fully concurs with the audit findings and recommendations, evaluate the comments as responsive and insert your evaluation in the Evaluation of Management Comments paragraph. Include a statement similar to the following in the evaluation paragraph: "Management comments addressed the issues raised in the report, and management concurred with the PMB (if applicable). Management actions taken or planned should correct the problem(s)."

b. Management Concurs and Proposes Alternative Corrective Actions. If management concurs with the audit results but proposes alternative corrective actions to correct the problem, the audit team should evaluate the management comments as responsive if the proposed actions will correct the condition. Include a statement similar to the following in the evaluation paragraph: "Management agreed with the audit results but proposed alternative corrective actions to the ones recommended in the report. Nevertheless, management's proposed alternative actions should correct the problem." If sufficient information is not available to make a judgment on whether alternative corrective actions will correct the audit problem, delay the report and perform additional audit work.

c. Management Nonconcurs. If management nonconcurs with audit results and recommendations, review the comments and evaluate management's logic.

(1) IR Director Responsibilities. The IR Director will process management comments as a nonoccurrence if they (a) disagree with any finding, recommendation, or PMB; or (b) propose alternative actions the IR Director believes will not correct the audit-identified problems. To process a nonoccurrence, the IR Director must:

(a) Make every attempt to resolve the disagreements, including discussing the management comments with the applicable senior management official.

(b) If the IR Director concludes the management comments are not responsive, include a statement similar to the following in the evaluation paragraph: "Management comments are not responsive to the issues raised in the report, and management does not plan to take action to correct the problems noted (or plans to take actions that will not, in our opinion, correct the problem)." Rebut the management comments by clearly explaining why management comments do not address the issues or are otherwise insufficient, and process the comments as a nonoccurrence. ***NOTE:*** Following the evaluation and rebuttal comments, include the following statement: "We advised management officials that we must issue the final report that indicates management's nonoccurrence with the audit findings, recommendations, and/or PMB (as applicable)."

(c) However, if the IR Director determines management is correct in the nonoccurrence, make the appropriate changes to the report and document the reason in the working papers. Clearly communicate the points of view of both management and auditors in the report to assist in resolving the issue.

d. Management Partially Nonconcurs. When management partially nonconcurs, advise management in writing of your evaluation and attempt to resolve the differences. If management elects not to revise their comments, then follow the guidance below.

(1) If management nonconcurs with the audit results but concurs with the recommendations (or proposes alternative actions that you believe will correct the deficiency), evaluate the comments as responsive. Include a statement similar to the following in the evaluation paragraph: "Although management nonconcurred with the audit results, management took (or plans to take) actions which we believe will correct the deficiency." In these instances, the audit team must still rebut management's nonoccurrence with the audit results.

(2) If management concurs with the audit results but nonconcurs with the recommendations (and does not propose acceptable alternative actions), evaluate the comments as nonresponsive. Include a statement similar to the following in the evaluation paragraph: "Management comments adequately address the audit findings but are not otherwise responsive to the issues raised in the report, and management does not plan to take action to correct the problems noted." The auditor must also rebut management comments.

(3) If management concurs (or partially concurs) with the audit results and recommendations, but their comments do not adequately address the issues in the report, treat these comments in the same manner as a nonoccurrence. Include a statement similar to the following in the evaluation paragraph: "Although management concurred with the audit results and recommendations, they have not taken (or do not plan to take) action which we believe will correct the deficiency; therefore, the management

comments are not responsive to the issues raised in the report." The auditor must rebut management's nonresponsive comments.

e. Management Nonconcurs with PMB. The management comments must provide reasons for a nonoccurrence and include evidence to support the alternate estimate. Instruct management to reaccomplish comments that do not reflect reasons for nonconcurring with the PMB.

(1) Full Nonoccurrence. Regardless of actions taken or planned on the audit results and recommendations, if management nonconcurs with the existence (not amount) of a PMB, evaluate the comments pertaining to the PMB as nonresponsive. Include a statement similar to the following in the evaluation paragraph: "Management comments addressed the issues raised in the report, and management actions taken or planned should correct the problem. However, management disagreed the action taken would result in a PMB. Therefore, the management comments are not responsive to the monetary benefit identified in the report." The auditor must now rebut management comments related to the PMB.

(2) Partial Nonoccurrence - Lesser Amount Specified. If management agrees with the existence but not the amount of the PMB and specifies a specific lesser amount (e.g., management agrees with only 3 of 5 line item reductions or a portion of the claimed amount), evaluate the management comments and explanation as follows:

(a) If the audit team disagrees with management's reduced PMB, evaluate the comments as nonresponsive. Evaluate only the amount in dispute (the difference between the auditor's estimate and the amount agreed to by management) as a nonoccurrence. Include a statement similar to the following in the evaluation paragraph: "Management comments addressed the issues raised in the report, and management action taken or planned should correct the problem. However, management disagreed the actions taken would achieve the full audit-estimated PMB. Instead, management estimated a lower PMB of only $x.x million. Therefore, the management comments are not responsive to $y.y million (*the difference*) of the monetary benefit contained in the report." The auditor must now rebut the management comments.

(b) If the audit team agrees with management's reduced PMB, evaluate the management comments as responsive. Show the agreed-to PMB amount in the final report and indicate audit's concurrence with the reduced amount in the evaluation comments.

(3) Partial Nonoccurrence - No Amount Specified. If management agrees there will be a PMB but does not agree with the amount of the PMB because they cannot determine the actual amount, evaluate the comments as responsive. Include a statement similar to the following in the evaluation paragraph: "Management agreed that monetary benefits will accrue, but declined to state an estimate. Management will validate the amount of actual savings after implementing the recommendation." ***NOTE:*** Management should "concur in principle" with the PMB rather than "nonconcur" and provide rationale for their qualification.

f. Management Provides New Information. If management provides new information in support of a position or to contradict information in the report, the auditor must appropriately verify the new information. When necessary to provide an objective presentation of facts, modify the final report to include the new, verified information. ***NOTE:*** If significant facts, omitted from the draft report, become known after issuing the draft for management comments, the audit team should re-accomplish the finding paragraph and possibly the recommendation and should resubmit the report to management for

comments. Complete cross referencing and independent referencing and obtain IR Director's approval before submitting the revised report to management.

g. Inserting the Evaluation of Management Comments in the Report. After the IR Director approves the evaluation of management comments, insert the evaluation in the final report.

(1) Executive Summary. Add a statement in the Management's Response paragraph similar to the following, at the end of the Management's Response paragraph:

(a) Responsive Comments. "Management officials agreed with the overall results. The corrective actions taken and planned are responsive to the issues, recommendations, and PMB (if applicable) included in this report." ***NOTE***: For clear reports, indicate that management officials agreed with the results contained in the audit report.

(b) Nonresponsive Comments. "Management comments adequately addressed the issues discussed regarding front-end opening and closing procedures. However, management comments were not responsive to the audit results, recommendations, and PMB regarding coupon handling procedures. See page X for additional details and the audit rebuttal." In the rebuttal, do not introduce new facts that were not presented to management in the draft report. The rebuttal must support the audit results, recommendation, and PMB (if applicable) by stating the rationale for the auditor's disagreement with management.

6.5. Nonconcurrences.

Nonconcurrences on recommendations and potential monetary benefits must be resolved. If the IR Director and the responsible Functional Process Owner or Region Directors cannot resolve the nonoccurrences, The Chief of Staff will adjudicate.

6.6. Final Report Processing.

a. Re-referencing. The IR Deputy Director will appoint an independent auditor to verify any significant changes to the final report (differences between the independently referenced and reviewed draft report and the final report).

b. Report Date. Date the report as of the day you will send it to the addressee.

c. Once finalized and signed, convert the Microsoft Word file to an Adobe portable document format (.pdf) file by sending the Word file to a .pdf print file.

d. Final Report Distribution. IR will distribute final reports via email, in .pdf to the Chief of Staff (COS), Deputy Chief of Staff (DCOS) and HSO. HSO will assign a tasker number and forward the report two days following receipt, or specified date, to: all applicable management officials within the functional chain of command, front office senior management, the DoDIG, and the Staff Liaison Specialist at the Pentagon. The DeCA Director and Chief Executive Officer, IAW DoD Instruction 7600.2, "Audit Policies," April 27, 2007,(Reference (e)), will update the Agency's report distribution requirements as necessary. Final report and the summary paragraph should also be forwarded to the Corporate Communications office within 5 days of the report being issued to be posted to the web. Ensure the report is posted on the public drive. ***NOTE:*** Report with no recommendations need not channel through

the HSO; however, must be forwarded to all applicable offices/directorates.

6.7. Follow-up Audits.

a. Purpose. Perform follow-up on audit results and recommendations contained in prior audit reports, to determine whether: (a) management took the recommended actions or satisfactory alternatives; (b) the actions management took were effective in eliminating the deficiencies; and, (c) management realized the PMB.

b. Scheduling. At the conclusion of each audit, the IR Deputy Director will determine whether the report contains significant recommendations meeting the follow-up criteria discussed below. The IR Deputy will notify the IR Director of all recommendations selected for follow-up. The IR Director will include reports with recommendations selected for follow-up in the annual plan. Schedule the audits a minimum of six months after management completes corrective actions and resources are available.

(1) When it is time to follow-up on the selected recommendations and management has not closed the recommendations, determine the reason for the delay. If the delay is not reasonable and management actions are more than six months overdue, the IR Director will determine whether to proceed with the follow-up audit. If the delay is reasonable, allow management more time to complete their actions before proceeding with the follow-up audit.

(2) If management has not completed implementation actions on any recommendation six months after the agreed-to date (whether or not selected for follow-up), consider following up to determine reasons for the delay.

c. Criteria. Use the following criteria to select recommendations for follow-up.

(1) Mission-Related Items. Follow up on audit results that involved deficiencies having significant impact on the DeCA mission (for example, gain/loss or front-end operations).

(2) Potential Monetary Benefits. Follow up on all audit results that identified a PMB of $250,000 or more. An objective of the follow-up audit will include verifying the amount of PMB realized.

(3) Recoupment Actions. Follow up on all recommendations that involved management initiating action to recoup funds.

(4) Controls and Fraud. Follow up on all reports that identified significant control problems or problems safeguarding resources from unauthorized use or disposition.

(5) Potential Anti-deficiency Act Violations. Follow up to review the accuracy and propriety of management actions taken as a result of an audit recommendation to determine whether a Department of Defense Directive (DoDD) 7200-1, *Administrative Control of Appropriations* (reference (f)), violation has occurred.

(6) Other. Follow up on other audit results and recommendations that, in the judgment of the IR Director, warrant follow-up.

d. Follow-up Log. For audit planning purposes, the IR Director will maintain a log of recommendations selected for follow-up. **Appendix I**, *Audit Follow-up Log*, contains a suggested format.

Review the audit follow-up log periodically to identify “open” recommendations for which the estimated completion date has passed. Contact the applicable management official to determine the reasons for the slippage and obtain a revised estimated completion date.

APPENDIX A
INDEPENDENCE STATEMENT

Auditor Independence Declaration

Generally Accepted Government Auditing Standards, paragraph 3.02 (GAO-07-731G) states "In all matters relating to audit work, the audit organization and individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence."

Examples of Personal Impairments. Factors may affect an auditor's independence in regards to the audited activity. Some of these factors are:

- Immediate family or close family member who is a director or officer of the audited entity, or, as an employee of the audited entity, is in a position to exert direct and significant influence over the entity or the program under audit.

- Concurrent or subsequent performance of an audit by the same individual who maintained official accounting records when such services involved preparing source documents; posting transactions; authorizing, executing or consummating transactions; maintaining an entity's bank account or otherwise having custody of the entity's funds; or otherwise exercising authority on behalf of the entity, or having authority to do so.

- A financial interest that is direct, or is significant/material although indirect, in the audited entity or program.

- Responsibility for managing an entity or making decisions that could affect operations of the entity or program being audited.

- Responsibility for managing an entity or making decisions that could affect operations of the entity or program being audited.

- Preconceived ideas toward individuals, groups, organizations or objectives of the audit entity or program that could bias the audit.

- Biases, including those resulting from political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular group, or level of government.

- Seeking employment during the conduct of the audit with an audited organization.

In addition to these personal impairments, an auditor should not:

- Review work the auditor performed.

- Review work of a previous supervisor or co-worker with whom the auditor has either a close personal relationship or unfriendly working relationship.

- Seek employment with the audited organization during the audit.

Examples of External and Organization Impairments. In addition to personal impairments, other factors may restrict audit work or interfere with an auditor's ability to form independent and objective opinions and conclusions. These factors include:

- Interference or influence that improperly limits the scope of an audit (that is, interference with the selection or application of audit procedures or in the selection of transactions to be examined.)
- Unreasonable restrictions on the time to complete the audit.
- Authority to overrule or influence the auditor's judgment as to the appropriate content of the audit report.
- Influence that jeopardizes the auditor's continued employment for reasons other than competency or the need for audit services.

(__) I have read and understand Chapter 3 of the Government Auditing Standards (the Yellow Book) pertaining to personal and external impairments of independence.

(__) I have no personal impairments and am not aware of any external impairments to independence as defined in the Government Auditing Standards. I will notify my supervisor immediately if I become aware of the potential existence of any actual or perceived personal or external impairment on my part or a co-worker's part between ***(insert dates)***. *–or–*

(__) I believe I cannot be independent or impartial on audit assignments for the following potential personal or external/organizational impairments:

_____
_____
_____
_____Printed Name
_____Signature _____Date

(__) I have reviewed this certification and agree that it appears no personal or external/organizational impairments to independence exist.

(__) I have reviewed the potential impairment to independence and have taken the following action(s):

_____
_____
_____

_____Supervisor's Signature _____Date

APPENDIX B
POTENTIAL AUDIT NEED

Date:	
Subject Title:	
DeCA Functional Area	

Contacts (Name)	**Position**	**Office Symbol**	**Phone**

Background:	
Overall Objective:	
Subobjectives **1.**	
2.	
3.	
4.	

Potential Audit Results **1.**	
(Condition/Impact) **2.**	
3.	
4.	

Suggested Approach:	

Best Time To Apply:	

Audit Priority:	**Urgent**		**Routine**		**Low**	

Estimated Audit-Hours:	
Estimated PMB Amount:	

Auditor:	
Reviewer:	

APPENDIX C
RISK-BASED PLANNING FACTORS

C2.1. Mission/Goals (20) (*NOTE*: number in parentheses is the risk criteria weighting factor.)

a. Definition. Importance of the audit subject to the mission statement or goals of the audit entity.

(5) High -Significant impact
(3) Medium -Moderate impact
(1) Low -Minimal impact
(0) N/A

b. Comment. Risk increases as projects directly impact the DeCA mission. For example, direct impact audits of sales, front-end operations, and customer service would receive high ratings. Indirect impact audits of these areas would receive medium ratings. Audits that have low impact on the organization's mission would receive lower ratings.

C2.2. Fraud, Waste, or Abuse (15)

a. Definition. Vulnerability of the audit subject to fraud, waste, and abuse.

(5) High -Very vulnerable
(3) Medium -Moderately vulnerable
(1) Low -Minimally vulnerable
(0) N/A

b. Comment. Risk increases when government assets can be easily converted to personal gain or use. For example, assets convertible to personal use include: cash and cash related instruments as well as assets that could be sold easily or used within a home or other non-work environment. Also, an organization's risk increases with increased disbursing/purchasing authority. For example, audits involving significant quantities of cash or credit card purchases, voucher and invoice payments, military or civilian pay, or large quantities of personal computers or vehicle parts would receive high ratings. Audits involving smaller quantities of convertible assets or budgets would receive medium to low ratings. Audits involving no convertible assets would receive no rating.

C2.3. Management-Suggested Subjects (11)

a. Definition. DeCA officials requested/suggested the audit subject.

(5) Yes
(0) No

b. Comment. If management requested/suggested the subject, it receives a "5" rating. If the subject was obtained from any other source, it receives a "0" rating.

C2.4. Resources (15)

a. Definition. The audit subject's dollar value of transactions, number of people involved, asset value, etc.

(5) High –More than 5 percent of the audit entity's resources (e.g., budget, personnel, assets, and transactions)
(3) Medium –Between 1 and 5 percent of the audit entity's resources
(1) Low - Less than 1 percent of the audit entity's resources
(0) N/A

b. Comment. Resources used should be those needed to accomplish the mission (buy and sell groceries) without consideration of the value of the actual groceries. Resources to consider include high-value equipment assets, computer equipment, vehicles, personnel costs, operations and maintenance budget, etc. For example, an audit of front-end department operations would not necessarily consider the value of the cash and other media on hand, but rather the impact on selling groceries and protecting government resources. The audit would also consider the value of equipment, tools, personnel, and other resources used to manage front-end operations. Most, but not all, audit subjects will score low to medium in the resources area as they relate to resources for the audit entity. This is corrected through use of the subject's entire risk assessment score as it is impacted by other risk criteria such as mission/goals or management suggestions. One example of a subject that could score high in the resources area is contracts that cost more than 5 percent of the DeCA O&M funds and use large quantities of time and personnel to oversee contract operations.

C2.5. Public Criticism (7)

a. Definition. Sensitivity of the audit subject to adverse public opinion or criticism.

(5) High - Congress, DoD, or DeCA very concerned
(3) Medium - Congress, DoD, or DeCA moderately concerned
(1) Low - Congress, DoD, or DeCA minimally concerned
(0) N/A

b. Comment. Examples of audits where DeCA would be very concerned about public criticism include environmental, acquisition/purchasing, and personnel cutback projects. Conversely, audits of basic support functions usually create little concern. However, any audit that identifies potentially fraudulent conditions can also result in heavy public criticism.

C2.6. Public Law (7)

a. Definition. Audit subject impacted by public law.

(5) Yes
(0) No

b. Comment. If an audit subject pertains to federal, state, or local laws, the subject receives a 5 rating. If the subject does not pertain to federal, state, or local laws, it receives a 0 rating. Examples of subjects impacted by public laws are environmental, medical, personnel management, and injury compensation.

C2.7. Internal Controls (10)

a. Definition. Internal controls to protect government interests and assets and promote the accuracy of reported financial results.

(5) High –Limited or non-existent controls
(3) Medium –Adequate controls or no basis for assessment
(1) Low –Significant internal controls

b. Comment. This risk criterion is based on the DeCA IR Director's experience with the subject and knowledge of past internal control program and other internal control reviews.

C2.8. Prior Audit Coverage (6)

a. Definition. Amount of time since last audit.

(5) High –More than 5 years
(3) Medium –More than 2, but less than 5 years
(1) Low –Less than 2 years

b. Comment. Time since last audit by DeCA IR; GAO; DoDIG; or public accountant.

C2.9. Mission Changes (9)

a. Definition. Changes in audit entity's mission, products/services, personnel, systems, or financial results.

(5) High -Changes are dynamic and far-reaching to the audit entity
(3) Medium -Changes are dynamic and impact a particular organization
(1) Low -Changes have minimal impact
(0) N/A

b. Comment. High-risk examples include store closures or major funding changes affecting the entire audit entity. Medium risk examples include the contracting out of selected functions such as deli operations. Low risk examples include small changes in personnel, funding, or other requirements.

C2.10. Manager Override

a. Definition. IR Director overrules the calculated priority score and declares this an audit of higher or lower priority.

b. Comment. Low scoring projects may move up in priority to balance the annual plan or simply because of IR Director judgment. However, the IR Director must justify the increased priority. High scoring projects may move down in priority to balance the annual plan because of IR Director judgment, or because of some limiting factor. Limiting factors include personnel, experience, cost, etc. Again, however, the IR Director must justify the decreased priority.

Risk-Based Planning Model

RISK ASSESSMENT FACTORS											
SUBJECT	Mission/ Goals	Fraud, Waste, Abuse	Mgt Sugg Subject	Resources	Public Criticism	Public Law	Mgt Controls	Prior Audit Cov	Mission Change	Risk Assess-ment Score	Override
Factor Weights>	20	15	11	15	7	7	10	6	9		
Factor Points>	5,3,1,0	5,3,1,0	5,0	5,3,1,0	5,3,1,0	5,0	5,3,1	5,3,1	5,3,1,0		
ZonePricing	60	15	55	15	21	35	30	30	9	270	
TDY Costs	60	15	0	45	35	35	10	6	0	206	
GPC	60	45	0	45	35	35	30	18	9	277	
Subj 04>										0	
Subj 05>										0	
Subj 06>										0	
Subj 07>										0	
Subj 08>										0	
Subj 09>										0	
Subj 10>										0	

APPENDIX D
AUDIT PROGRAM (Planning Phase)

1. 1. This audit planning program provides guidance for planning all audits.

a. The supervisory auditor and auditor should have frequent progress meetings throughout audit planning.

b. For follow-up audits, auditors should accomplish steps 1 and 2 from the planning program, as well as any other steps the supervisory auditor deems appropriate, before beginning audit execution.

1. 2. All steps in the audit planning program, except steps 9, are mandatory and require a response (i.e., the steps cannot be answered "N/A"). Where possible, the auditor should hyperlink planning program step responses to supporting documents that explain the audit rationale. The auditor should obtain supervisory approval for optional steps not accomplished. No explanation is required. Steps are not necessarily performed in the order presented.

1. 3. With the supervisor's approval, and to preclude the start of audit execution, the auditor may defer accomplishing some planning-steps (e.g., program magnitude may not be readily available, or metric data may take time to compile) to audit execution. However, the auditor should not defer so many steps that he or she cannot properly design the audit. Further, the auditor should explain in the response area the rationale for deferring steps. In addition, the auditor should later link the planning step to the work accomplished during audit execution.

1. 4. The actual amount of planning work accomplished will vary from audit to audit and depend mainly on the audit team's familiarity with the subject area and understanding of the control environment. If for example, the audit team has previously accomplished the same audit at another location, then the prior work can be used in planning for the current audit. In this case, the planning work would largely consist of updating the planning program with the information applicable to the new location/organization and bringing information forward from the prior audit's results to the current audit's planning program (by cutting and pasting or hyperlinking).

Step No.	Description and Response
1	**Audit Announcement Memorandum**. Prepare the audit announcement memorandum/email following the guidance. Ensure all audit notifications are sent to the front office group, applicable Region Director and/or FPO, and a copy of the announcement is furnished to the DoDIG and the HSO.
	Response.
2	**Entrance Conference**. Conduct the audit entrance conference (paragraph **3.4.b.2**). Inform local management officials of the audit objective, scope, and estimated time frame of the audit and assure there are no scheduling conflicts. Ask management to identify any areas they would like addressed during the audit and discuss suggested audit approaches.

	Response.
3	**Preliminary Research**. Preliminary research is accomplished to familiarize the auditor with the subject matter of the audit.
3a	Obtain from the IR Director or IR Deputy Director any preliminary research data gathered in support of subject identification.
	Response.
3b	Identify applicable directives. Search the DeCA electronic publications library and consult DoD and/or GAO guidance, applicable. Download and review applicable directives to determine key processes and terminology.
	Response.
3c	Identify, obtain, and review any supplemental criteria used by the activity, such as standard operating instructions.
	Response.
3d	Flowchart the process of the subject matter being audited. Make sure to identify control points
	Response.
4	**Prior Audit Coverage**. Determine if there have been any prior audits (DeCA, DoDIG, or GAO) with similar objectives accomplished in the past 5 years involving the audit subject. Government auditing standards require auditors to follow up on significant findings and recommendations from previous audits to determine if management took timely and appropriate corrective actions.
	Response.
4a	Review the prior audit reports and identify findings and recommendations that relate closely to the current audit's objectives. Determine if any problems identified in the prior reports are applicable to the scope/objectives of the current audit. If so, include steps in the audit program to determine whether management effectively implemented the recommendations and the actions management took corrected the problems identified.
	Response.
5	**Basic Information of the Audited Function**. Information gathered in this series is needed to build the audit framework as well as to support the introduction paragraph(s) of the audit report. Basic information is obtained through discussion with management and review of available records.
	Response.
5a	Identify the primary/subordinate mission of the audited function/organization. What is the audited organization's or programs primary purpose?
	Response.
5b	Identify the magnitude of resources (in terms of funding, material, personnel etc.) that are put into the program.

	Response.
5c	Identify key personnel and define their areas of authority and responsibility.
	Response.
5d	Discuss with key personnel how the process/program works/operates/functions and flowchart as appropriate.
	Response.
6	**Metrics**. Metrics, also called performance measures, are the objective standards or goals that managers use to assess performance. Success in achieving the established metrics is a prime indicator of the organization's effectiveness. Through discussion with management officials, determine what measures or indicators they use, if any, to measure how well the audited activity is accomplishing its mission. If management has established metrics for the audited activity, obtain and review the latest data/reports. ***NOTE***: Consider including steps in the audit program to determine the validity of the metrics (i.e., to determine if the metrics were computed correctly and reported accurately). If no metrics exist, should management have indicators to measure productivity, service, or mission effectiveness?
	Response.
7	**Internal Controls.** Government auditing standards and DeCA IR policies and procedures require auditors to review controls in every audit. At a minimum, auditors will identify the key controls in the planning phase and form a preliminary assessment of their effectiveness through limited testing. Consider the effectiveness of controls in determining the need to continue the audit and as possible causes for the conditions noted. Examples of key controls to review: a. Controls over information processing. b. Physical control over vulnerable assets. c. Segregation of duties. d. Proper execution of transactions and events. e. Accurate and timely recording of transactions and events. f. Access restrictions to and accountability for resources and records. g. Appropriate documentation of transactions. h. Management review and oversight. ***NOTE***: When performing internal control review steps, the auditor should ensure all associated risks are properly mitigated through tests of internal controls. Consequently, auditors (with assistance of the supervisor) may need to add additional internal control review steps to those listed below to adequately assess internal controls for the subject area. For additional information, see GAO-01-1008G, Internal Control Management and Evaluation Tool (http://www.gao.gov/new.items/d011008g.pdf).
7a	Through discussions with operating personnel and review of applicable DeCA directives and standard operating procedures, identify the significant controls management has implemented to account for and protect assets, ensure accurate reporting, and accomplish the function's mission. Flowchart the control processes using automated, manual, or narrative means.
	Response.
7b	To gain a better understanding and verify the processes identified in step 7a, select a few sample transactions and trace them through the process to determine if the identified controls have been effectively implemented and are consistently applied.
	Response.

7c	Based on information gathered to date, have prescribed controls been implemented and do they appear to be effective? Provide your rationale. ***NOTE*:** In the audit program you will design tests to accomplish further testing in areas where controls appear weak or noncompliance is suspected.
	Response.
8	**Risk of Fraud**. Government auditing standards require auditors to design audits to provide reasonable assurance of detecting fraud, illegal acts, or violations of provisions of contracts or grants that could have a material effect on the subject matter. The auditor should be alert to situations that could indicate fraud, especially when auditing areas with high potential for errors, irregularities, and illegal acts (areas involving cash, valuable and or highly pilferable assets, contractual issues, etc.). The amount of effort expended should be commensurate with the materiality and risk associated with the subject matter. If control problems are noted in step 7 (e.g., non-compliance and lack of oversight) and the audit area has high potential for fraud, consider the risk of fraud to be high.
8a	Identify and list any areas of potential fraud. Examples of potential fraud indicators to review, if applicable to audit: a. Duplicate payments/invoices. b. Missing/altered documentation. c. Inventory shortages/adjustments. d. Weak controls. e. Excessive parts replacement. f. Unauthorized computer access. g. Net income losses. h. Excessive coupons processed. i. Suspended and resumed/not resumed transactions. j. Tender type substitutions.
	Response.
8b	Based on your planning work, do you consider the subject area to have high, medium, or low risk for fraud and other illegal acts? Explain your conclusion. If yes, include steps in the audit program to provide reasonable assurance of detecting fraud or illegal acts.
	Response.
9	**Computer-Generated Data**. From information gathered to date, identify any computer systems used and computer-generated data and reports that you will rely on to accomplish the audit and that will later support your audit conclusions. ***NOTE***: Additional computer-generated data may be identified during audit. Also, computer-generated data should be tested during the audit execution if the Klynveld, Peat, Marwick and Goerdeler (KPMG) assessment is not applicable. Step 9 includes results data regarding the liability of most computer-generated data you will use during your audits. As such, consider this requirement completed unless you rely on data from a non-financial system that does not feed into any of the systems mentioned.
	Response.
9a	As part of the Fiscal Year 2006 audit of the DeCA financial statements, KPMG LLP auditors performed a review of information technology general and application controls over the following key DeCA systems that support financial transactions and reporting: • DeCA Interactive Business System (DIBS) • Electronic Data Interchange (EDI) • Standard Automated Voucher Examination System (SAVES) • Accounting and Inventory Management System (AIMS) According to the KPMG auditors, the general and application controls associated with DeCA financial and financial-related systems continue to need improvement. However,

	these reportable conditions are not believed to be material weaknesses.
	Response. As such, we relied on computer-generated data from the CARTS (for example) system that feeds data to the AIMS and SAVES, to support audit findings and conclusions. {Example}
10	**(CAATTs).** Consider and document any CAATTS that you may be able to use during the audit.
	Response.
11	**Sampling.** Consider and document what, if any, data can be used for statistical sampling and whether the data can be used to project for potential monetary benefits (PMB) purposes.
	Response.
12	**Potential Findings**. Perform additional testing as needed and appropriate to identify potential problems and their causes and impact. At this point, the supervisor and auditor should determine the types and quantity of additional testing that are needed.
	Response.
13	**Audit Decision**. Based on the planning work accomplished, determine whether to continue the audit. Prepare a working paper summarizing the planning findings and conclusions and providing rationale for: (a) continuing the audit, (b) terminating the audit and issuing a report, or (c) terminating the audit without a report. ***NOTE***: A formal audit decision is not required for requested audits. However, the auditor should still prepare a working paper summarizing the planning results.
	Response.
14	**Prepare Audit Program.** When planning results in a 'go' decision, use the guidance in (paragraph 3.8) to develop the audit program. Include a series of steps to answer each objective.

APPENDIX E
ENTRANCE CONFERENCE SLIDES

Audit of Intermittent and Part-Time Employees

Internal Audit Entrance Conference
for
Mr. Jerry Oestreich
Director, Human Resources
November 20,2006

1

Objective

- Determine whether DeCA properly uses, and documents the use of, intermittent and part-time employees

2

Audit Approach

- Evaluate the scheduling and use of intermittent employees at select stores for adequacy
- Determine if intermittent employees are used in accordance with the DeCA Handbook 50-11
  - Scheduled only within the administrative work week
  - Not on fixed schedule
  - If on fixed schedule for more than two pay periods, is the proper work schedule change accomplished

3

Audit Approach

- Collect relevant data & documentation
- Analyze information gathered to help answer the objective
- Provide periodic updates to responsible personnel when needed
- Work together to develop recommendations to address any problems
- Include your verbatim comments in audit report

4

Projected Timeline

- Entrance Conference: November 2008
- Field Work: November 2008 — January 2009
- Draft Report: February/March 2009
- Final Report: March/April 2009

5

Points of Contact

- Internal Audit points-of-contact:
  - Deputy Chief of Internal Audit
  - Chief of Internal Audit

6

APPENDIX F
COMPUTER-GENERATED DATA RELIABILITY REPORTING

The following examples address different scenarios regarding the use and reliability of computer-generated data obtained during audits. When writing the "Extent of Coverage" paragraph, auditors should use one of the following examples, or a customized variation thereof, to describe their assessment of the computer-generated data.

A2.1. Background Information Only. We extensively relied on computer-generated data contained in the Standard Base Supply System. We used the data for informational purposes only.

A2.2. Reliable Data--Review of System Controls and Other Data Tests. We extensively relied on computer-generated data contained in the Standard Base Supply System. We assessed the reliability of data, including relevant general and application controls, and found them adequate. To establish data reliability, we compared output data to manual documents to validate data accuracy; reviewed output products for obvious errors, reasonableness, and completeness; recalculated totals to verify math operations; and tested the system's edit checks to validate the rejection of erroneous data. Based on these tests, we concluded that the data were reliable in meeting the audit objective.

A2.3. Reliable Data--Data Tests Only. We extensively relied on computer-generated data contained in the Standard Base Supply System. To establish data reliability, we compared output data to manual documents to validate data accuracy; reviewed output products for obvious errors, reasonableness, and completeness; and recalculated totals to verify math operations. Based on these tests, we concluded that the data were reliable in meeting the audit objective.

A2.4. Unreliable But Usable Data. We extensively relied on computer-generated data contained in the Standard Base Supply System. The results of data tests comparing output data to manual documents to validate data accuracy; reviewing output products for obvious errors, reasonableness, and completeness; and recalculating totals to verify math operations showed an error rate that casts doubt on the data's validity. However, we believe the opinions, conclusions, and recommendations in this report are valid when viewed with other available evidence.

A2.5. Unreliable and Unusable Data. We extensively relied on computer-generated data contained in the Standard Base Supply System. However, the results of data tests showed an error rate that cast doubt on the data's validity. Since the audit objectives required specific statements based on this data and sufficient and appropriate independent evidence was not available, we were unable to provide specific projections, conclusions, or recommendations.

A2.6. Reliability Not Determined--No Material Impact on Audit Results. In most material aspects, we accomplished the audit IAW generally accepted government auditing standards. We did not follow certain aspects of the evidence standard. Specifically, we extensively relied on computer-generated data contained in the Standard Base Supply System without conducting tests to confirm the data's reliability. We did not establish the data's reliability because (state reasons). In our opinion, however, not following that standard had no material effect on the audit results.

A2.7. Reliability Not Determined--Material Impact on Audit Results. In most material aspects, we accomplished the audit IAW generally accepted government auditing standards. We did not follow certain aspects of the evidence standard. Specifically, we extensively relied on computer-generated data

contained in the Standard Base Supply System without conducting tests to confirm the data's reliability. We did not establish the data's reliability because (state reasons). In our opinion, not making the evaluation had (state known impact on audit results).

APPENDIX G
AUDIT REPORT REVIEWER CHECKLIST

Project No.:		
Report No.:		
	YES	NO
1. Executive Summary		
a. Introduction		
(1) Are mission and responsibilities of the audit entity described?		
(2) Are perspective/magnitude data provided (quantities of dollars, assets, people, etc.)?		
(3) If a request audit, is this fact noted in the introduction?		
b. Objectives		
(1) Do the objectives in the report agree with the objectives that were announced to management at the start of the audit and with the objectives stated in the program?		
c. Results		
(1) Does the results section state the overall condition and any positive conclusions?		
(2) Does each results paragraph briefly summarize the condition and impact (but not the cause)?		
(3) Are the results paragraphs presented in the same order as discussed in the objectives paragraph?		
(4) For each results paragraph, is the reader referred to where the discussion is located in the report?		
d. Recommendations		
(1) Does the recommendation paragraph indicate the number of recommendations and the general nature of the recommendations?		
(2) Does the recommendation paragraph refer the reader to where the recommendations are located in the report?		

e. Management's Response		
(1) (Draft Report) Is "MANAGEMENT COMMENTS" inserted after the executive summary recommendations paragraph and left blank in the draft report?		
(2) (Final Report) Is a statement inserted in the management comments paragraph of the final report indicating whether or not management concurred with the findings and recommendations and if the actions planned or already completed are responsive to the issues and recommendations included in the report?		
2. Contents Page		
a. Do the results sections and appendix title(s) agree with those used in report?		
b. Are the page numbers accurate?		
3. Results Sections		
a. Background		
(1) Does the background paragraph identify the criteria used to evaluate conditions discussed?		
(2) Does the background paragraph describe mission and magnitude of operations for the activities discussed (normally without repeating information provided in the Executive Summary)?		
(3) Does the report provide additional information the reader needs to understand the issues discussed in the finding (but not unneeded extraneous information)?		
b. Audit Results		
(1) Condition		
(a) Do finding paragraphs include clearly discernible condition, cause, and impact statements?		
(b) Does the topic/charge sentence (condition statement) describe the problem in active voice?		

(c) Where possible, did the auditor use examples to clarify and reinforce the condition?		
(d) Are numbers rounded off to enhance clarity of presentation?		
(e) Are locations where deficiencies were found identified in the finding?		
(f) If PMBs are identified, are the dollar amounts clearly and accurately presented?		
(g) Is vague or imprecise terminology eliminated (e.g., some, not many, not always)?		
(2) Cause		
(a) Do audit results (finding) paragraphs contain clearly discernible cause statements which describe why the condition occurred?		
(b) Are the causes cited the "root" causes and not subjective reasons (e.g., lack of awareness, misinterpretation of guidance, beliefs, etc.)?		
(c) Is it clear the conditions could have occurred as a result of the cited causes?		
(3) Impact		
(a) Does impact describe the effect of the problem and illustrate how serious the problem is?		
(b) Is the relationship between the condition statement and the impact clear and readily discernible?		
(c) If the impact is based on projections, did the auditor use statistical sampling (versus judgmental sampling)?		
(4) Recommendations		
(a) Is a recommendation provided for each cause cited in the results paragraph?		
(b) Is a recommendation provided, when appropriate, to correct the deficient condition (e.g., recoup lost assets, establish an account receivable)?		

(c) For each recommendation, is there a related condition or cause?		
(d) Are recommendations for specific action, avoiding such words as verify, consider, study, emphasize, and evaluate.		
(5) Management Comments		
(a) (Draft Report) At the end of the Results section, does the draft report reserve space for the management comments paragraph?		
(b) (Final Report) Do management comments clearly track/relate to the recommendations and applicable finding?		
(c) (Final Report) Do the comments clearly indicate management's concurrence or nonoccurrence with finding, recommendation, and potential monetary benefit?		
(d) (Final Report) Were errors in grammar, spelling, or punctuation corrected?		
(e) (Final Report) Is an estimated completion date provided for each agreed-to action?		
(6) Evaluation of Management Comments		
(a) (Draft Report) At the end of the Results section, is a space reserved for the audit evaluation statement concerning manage-mint action or planned actions?		
(b) (Final Report) Does the audit evaluation of management comments clearly state whether management's actions are responsive?		
(c) (Final Report) Does the evaluation exclude new facts not previously included in the report?		
(d) (Final Report) Do evaluations of adequate management comments take the form "Management comments and actions planned and taken adequately address the issues, recommendations, and potential monetary benefits.”?		

(e) (Final Report) Do evaluations address the adequacy of alternative actions proposed in management comments?		
(f) (Final Report) Do evaluations effectively rebut management assertions that disagree with audit conclusions?		
4. Report Appendices		
a. Appendix I – General Audit Information		
(1) Scope and Methodology. Does this section:		
(a) Clearly indicate the parameters of the audit and the methodology used in the review so the reader fully understands work performed and work not performed?		
(b) Indicate when the audit was performed (from month and year research started to month and year summarization ended)?		
(c) Clearly identify source documents used for verification, confirmation, and other tests during the audit (providing their titles and the time periods)?		
(d) Identify the significant internal and management controls evaluated? Optionally, this information can be presented in the results paragraphs.		
(e) Indicate the size (number of line items, units, dollar values, transactions, etc.) of the sample universe and the period covered? Also, does this section indicate the sample size and time period covered by the sample and the type of sampling technique used?		
(3) Data Reliability. Does the Data Reliability paragraph:		
(a) Discuss steps taken to verify the reliability of computer-processed data used in the audit?		
(b) State that computer-processed data was not used in the audit, if applicable?		
(5) Discussion with Responsible Officials. Does this section:		

(a) Identify specific management officials with whom the draft report was discussed?		
(a) Indicate when the draft report was issued to management (month, day, and year) for comment?		
(b) Give the date when management formal comments were received?		
(6) Prior Audit Coverage. Does the Prior Audit Coverage section:		
(a) Include a paragraph that identifies DeCA, DoDIG, and GAO reports related to the current audit objectives that were followed up on in the current audit?		
(b) Include a paragraph titled "related reports" that identifies reports of interest in the same area as the current audit that did not require follow up?		
(7) Is the Freedom of Information Act statement included in the Appendix footer?		

APPENDIX H
REPORT OF AUDIT
INDEPENDENT REFERENCE REVIEWER CHECKLIST

REFERENCER:			
DATE COMPLETE:	REPORT NO: DeCA IRXX- XX		
EXECUTIVE SUMMARY	**YES**	**NO**	**NA**
Introduction **Are all dollars, numbers, dates, regulation cites, and other facts accurate and supported in the working papers?**			
Objectives Are the objectives clearly stated and do they match the objectives in the audit announcement memorandum/email?			
Results Are all conclusions (including positive statements) supported in the working papers?			
AUDIT RESULTS			
Background Is the background information (all dollars, numbers, dates, and regulation cites), if any, accurate and supported in the working papers?			
Condition and Support Are all figures, statements of fact, schedules, tables, graphs, examples, and management corrective actions accurate and supported in the working papers?			
Cause Is the cause supported in the working papers? For example, the working papers must specifically support a cause that the Store Director did not monitor coupon processing.			
Impact Are all figures accurate and supported in the working papers?			

	YES	NO	NA
Recommendations Are all regulations cites, if any, accurate and supported in the working papers?			
AUDIT SCOPE AND METHODOLOGY			
Are the following accurate and supported in the working papers:			
Background?			
Criteria?			
Audit scope information, including titles and time periods of documents reviewed, sampling methodology, CAATTs procedures, etc.?			
Tests of internal controls?			
Statement regarding reliability of computer processed data?			
Prior audit coverage?			
Out-briefing discussions with management?			

NOTES TO INDEPENDENT REFERENCE REVIEWER:

1. Place TeamMate tick marks or initials in the working papers next to the supporting evidence and in the report next to the information referenced.

2. There may be information in the report that requires independent referencing that the auditor did not hyperlink (cross reference) to supporting files. When that happens, return the working papers to the auditor and ask him or her to complete the hyperlinks.

3. Document and explain all “No” answers in TeamMate coaching notes.

APPENDIX I
AUDIT FOLLOW-UP LOG

1	2	3	4	5	6	7	8	9	10	11	12
Rpt No.	**Internal Review Repot Title**	**Report Date**	**Responsible Auditor**	**No. of Findings**	**No. of Recs.**	**Potential Monetary Benefit (PMB)**	**Estimated Completion Date**	**Actual Completion Date**	**FPO/ POC**	**F/U Date**	**Date Rpt. Clsd**

GLOSSARY

ACRONYMS

AICPA	American Institute of Certified Public Accountants
CAATTS	Computer Assisted Auditing Tools and Techniques
CARTS	Commissary Advanced Resale Transaction System
DeCA	Defense Commissary Agency
DeCAD	Defense Commissary Agency Directive
DeCAM	Defense Commissary Agency Manual
DeCA IR	Defense Commissary Agency Office of Internal Review
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
FPO	Functional Process Owners
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accountability Office
IAW	inaccordance with
IR	Internal Audit Office
IRR	Independent Reference Reviewer
HSO	Headquarters Support Office
KPMG	Klynveld, Peat, Marwick and Goerdeler
MFR	memorandum for record
OMB	Office of Management and Budget
PMB	Potential Monetary Benefit
ULO	unliquidated obligation