



4250 N. Fairfax Drive, Suite #648
Arlington, VA 22203
703-943-8129

Audit – Compliance - Risk Management

May 15, 2024

Kimberly Holt, CPA
Acquisition Audit Services Branch
Indirect Cost & Contract Audit Division
Financial Management Directorate
Interior Business Center
650 Capitol Mall, Suite 4-300
Sacramento, CA 95814-4745

Subject: External Peer Review Report for the Department of Interior (DOI), Interior Business Center (IBC), Indirect Cost Services Division's (ICSD) Acquisition Audit Services Branch (AASB) as of April 30, 2024.

Ms. Holt:

I am pleased to provide you with a copy of the recently completed external peer review report for the Department of Interior (DOI), Interior Business Center (IBC), Indirect Cost Services Division's (ICSD) Acquisition Audit Services Branch (AASB).

EMY Consulting LLC (EMY) conducted the peer review in accordance with Generally Accepted Government Auditing Standards peer review requirements. EMY found that the system of quality management for the AASB has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Therefore, EMY has issued a rating of "Pass" peer review rating for the AASB system of quality control.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads 'Elena Yearly'.

Elena Yearly
CEO
EMY Consulting LLC



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**External Peer Review Report for the Department of Interior (DOI), Interior Business Center (IBC), Indirect Cost Services Division’s (ICSD) Acquisition Audit Services Branch (AASB)
As of April 30, 2024**

Prepared May 15, 2024

We have examined the system of quality control¹ for the Interior Business Center (IBC), Indirect Cost Services Division’s (ICSD) Acquisition Audit Services Branch (AASB), of the United States Department of Interior, in effect since the time of your last peer review in 2021. A system of quality management encompasses evaluating AASB’s organizational structure and the policies adopted, and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. The elements of quality control are described in the U.S. Government Auditing Standards (Yellow Book). AASB is responsible for establishing and maintaining a system of quality control that is designed to provide it with reasonable assurance that the Branch and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and AASB’s compliance therewith based on our review in accordance with GAGAS.

Our examination was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS). The Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* was also used from a guidance perspective as well as the attestation standards issued by the American Institute of Certified Public Accountants (AICPA). We examined on a test basis, evidence supporting AASB’s design and operating effectiveness of its system of internal control and performing such other procedures that we considered necessary in these circumstances and during our evaluation. We also performed a peer review risk assessment in accordance with the existing 2018 GAGAS requirements.

¹ The 2024 update to the Yellow Book replaced ‘quality control’ with ‘quality management’. However, the requirement to abide by the new standards was not applicable to this peer review as the revised Yellow Book standards do not go into effect until December 2025. Therefore, for the purposes of this FY24 peer review, we have opted to retain the ‘quality control’ language in this report.

During our examination, we interviewed AASB personnel through a series of conference calls to obtain an understanding of the nature of the AASB audit organization. We also obtained an understanding of the design of AASB's system of quality management to sufficiently determine and assess the risks implicit in its audit functions. Based on our assessments, we selected GAGAS audits, non-GAGAS assignments and related administrative files to test for conformity with professional standards and compliance with the AASB's system of internal quality control. The engagements (GAGAS audits and non-GAGAS assignments) selected for this peer review represented a reasonable cross section, from our standpoint, of engagements that either have been completed and reports issued, open/in progress engagements as well as cancelled engagements. The engagement types from which the sample selection was made were identified by AASB as: Incurred Cost Audits, Provisional Billing Rate Determination, Forward Pricing Rate Proposal Audits, Advisory Services, Pre-Award Accounting System, Post Award Accounting System, Post Audit Support, Compliance of Revised Disclosure Statement and Rate Verification. In Progress engagements are those that are currently underway. In progress GAGAS audits and in progress non-GAGAS assignments were also included in the sample selection for peer review testing. Prior to concluding the peer review, we reassessed the adequacy of the scope of our peer review procedures and met with AASB management virtually to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion of this examination.

In performing our examination, we obtained an understanding of the system of quality management for AASB and evaluated AASB's adherence to *Government Auditing Standards*. This was performed through the interviews that were conducted, policies and procedures documentation provided by AASB, audit reviews and questionnaires completed covering applicable adherence and policies and procedures questions. Selected members of the AASB audit team participate in various committees that have been established since the last peer review and were interviewed as committee members to gain their perspectives on the AASB audit process. There are a total of five committees that have been established since the last peer review. These are: the training committee, quality committee, audit process committee, CaseWare committee, and the project management committee. Each committee has its own mission and objectives/goals. Each committee has an agenda and the meeting minutes for the committee meetings are documented. Each committee has a sponsor, a lead, members, and other contributors providing them with certain roles and responsibilities, accountability standards and the opportunity for AASB employee to participate and contribute to AASB audit operations.

In addition, we tested compliance with the AASB's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the AASB's policies and procedures on selected audits. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality management or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control, and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

Note 1 to this report on page five provides an overview of the Scope and Methodology of our examination. Note 2 to this report on page 7 provides a listing of the GAGAS audits and non-GAGAS assignments that we reviewed for this peer review.

Opinion

In our opinion, the system of quality control for the audit organization of the AASB in effect as of April 30, 2024, has been suitably designed and complied with to provide the AASB with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. AASB has received an External Peer Review rating of **Pass**.



May 15, 2024
Arlington, VA

Note 1: Scope and Methodology of EMY Consulting LLC Peer Review and Examination

This peer review was conducted virtually. During this peer review, we conducted a kickoff meeting on September 14, 2024, and held three virtual interviews with the AASB on February 26, 2024. Those selected for the interviews was based on the AASB staff listing provided in response to a documentation request. The AASB team is in Sacramento and Pasadena, California. The virtual interview sessions with AASB audit team members allowed the peer review team to gain further perspectives on the quality review process and how AASB follows the standard audit process from planning through reporting to perform their work. During the peer review, status calls and/or meetings were held to provide updates as to the peer review progress. Project and/or action plans were shared during these status calls along with agendas to provide detailed insights into the timeline for completion of peer review activities.

The objective of this peer review was to determine whether the system of quality management for AASB's audit operations was designed and operating in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our examination covered the following areas of Quality Control specified by GAGAS:

- Leadership Responsibilities for Quality Control
- Independence, Legal and Ethical Requirements
- Initiation, Acceptance and Continuance of Audits
- Prior Peer Review Results Review
- Human Resource Processes
- Continuing Education/CPE Requirements
- Audit Performance, Documentation and Reporting
- Monitoring of Quality
- Peer Review Risk Assessment Review
- Terminated Audits
- Threats to Independence

During the review, the peer review auditors selected twelve of 38 engagements (GAGAS audits and non-GAGAS assignments) identified in AASB listings of engagements. We determined that selecting the GAGAS audits and non-GAGAS assignments to include those that were completed, cancelled and that are in progress during our peer review time scope from 2021- 2023 would provide greater assurance as to AASB's system of quality control. In conjunction with GAO and AICPA guidelines, an analysis was conducted to determine the status of the listed GAGAS audits and non-GAGAS assignments from the in-scope timeframe and for this peer review and to apply a completeness test. A total of 38 audits represented the population of engagements from which the sample was determined. The engagements selected for sampling included complete/report issued GAGAS audits and non-GAGAS assignments, cancelled as well as in progress GAGAS audits and non-GAGAS assignments. Using CIGIE-approved checklists, the sample population was reviewed for the peer review.

AASB auditors are required to follow the Yellow Book standards that are applicable to the objectives of each audit that is performed. The AASB policy is to fully comply with GAGAS quality control standards in every respect. The AASB commitment to quality is covered titled 'Appendix A Description of Quality Control System' that was approved November 12, 2023, and which was thoroughly reviewed for this peer review. Quality control procedures are addressed in this

Appendix document. To ensure uniformity, report writing guidelines are in the process of being memorialized in a draft Audit Handbook to which the peer review auditors were given visibility into several chapters of this handbook that is due to be completed in FY25. The peer review auditors noted that the AASB emphasizes that GAGAS standards are to be followed, where applicable, in preparing their audit reports. Chapter 2 of the Audit Handbook is titled ‘Auditing Standards’. Within this Chapter, Section 2-205 is dedicated to Quality Control and Assurance and is aligned with GAO’s Yellow Book Chapter 5.

Throughout the peer review, we interacted closely with key management and staff in the Sacramento and Pasadena, California locations as needed. We engaged in corroborative inquiries and questioned management to gain clarity regarding the AASB audit process and to determine their knowledge of GAGAS policies and procedures. These discussions were complemented by the inclusion of tailored audit staff questions regarding the audit process, the quality management process, individual audits, personnel performance, and evaluations, hiring and evaluation practices and training. Our peer review procedures also included inspecting audit training materials, CPE records, and materials documenting internal quality control procedures and ensuring that AASB has competent staff to execute its audits/examinations.

Note 2: GAGAS Audits and Non-GAGAS assignments selected for the Peer Review

We reviewed the following AASB GAGAS audits and non-GAGAS assignments. A total of 12 samples were evaluated for this peer review:

REQ ID	Result ID: Lead ASN	FY	Auditee	Customer	Type of Audit or Assignment	Date Completed	Type of Audit or Assignment
R2021-001	1001-2020A10100002	2021			Incurred Cost Audit	2023-02-15	GAGAS-completed audit
R2022-007	1001-2022A23000001	2022			Forward Pricing Rate Proposal Audit	2022-11-15	GAGAS-completed audit
R2023-013	1001-2023B19100001	2023			Compliance of Revised Disclosure Statement	2023-08-29	GAGAS-completed audit
R2023-020	1001-2023A17740001	2023			Pre-award Accounting System Audit	2023-09-18	GAGAS-completed audit
R2023-018	1001-2023B29000001	2023			Advisory Services	2023-09-30	Non-GAGAS completed assignment
R2024-003	1001-2024A15500002	2023			Provisional Billing Rates	2023-11-21	Non-GAGAS completed assignment
R2023-005	1001-2023B17741001	2023			Post-award Accounting System Audit	Date Started-2023-06-01	GAGAS- in progress audit
R2023-017	1001-2023B42000001	2023			Post audit support	Date Started-2023-05-01	Non-GAGAS- in progress assignment
REQ ID R2021-004	1001-2015A10100004	2021			Incurred cost audit	Date Cancelled: 2022-11-21	Cancelled GAGAS Audit
REQ ID R2023-001-	1001-2021A10100004	2023			Incurred cost audit	Date Cancelled: 2023-09-01	Cancelled GAGAS Audit
REQ ID R2023-003	1001-2023B17741001	2023			Post award accounting system audit	Date Cancelled: 2022-10-01	Cancelled GAGAS Audit
R2023-011	1001-2023A15500002	2023			Provisional Billing Rates	Date Cancelled: 2023-04-11	Cancelled Non-GAGAS assignment