



Audit – Compliance - Risk Management

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August 4, 2021

Craig A. Wills  
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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 March 31, 2021.

Mr. Wills:

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 control 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 March 31, 2021**

Prepared August 4, 2021

We have examined the system of quality control 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 formation of AASB in 2019 through March 31, 2021. A system of quality control 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 GAGAS requirements.

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 controls to sufficiently determine and assess the risks implicit in its audit functions. Based on our assessments, we selected audits and related administrative files to test for conformity with professional standards and compliance with the AASB's system of internal quality control. The audits selected for this peer review represented a reasonable cross section, from our standpoint, of audits that either have been completed and reports issued as well as open/in progress assignments. In some instances, and included in our sample selection, were non-audit services. The assignment types from which the sample selection was made were identified by AASB as: Incurred Cost Audits, Provisional Billing Rate Determination, Pre-Award Accounting System, Post Award Accounting System, Compliance of Revised Disclosure Statement and Rate Verification. AASB completed its first audit engagement in 2019. The last report issued was as of October 8, 2020. Open/Assignments in Progress are currently underway. 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 control 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 also completed questionnaires that provided further insights into the overall audit process from their perspectives as well as recommendations for improvement. 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.

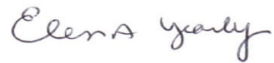
Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control, and, therefore, noncompliance with the system 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 eight provides a listing of the audits that we reviewed for this peer review.

AASB provided additional background information shown on page nine of this report.

**Opinion**

In our opinion, the system of quality control for the audit organization of the AASB in effect as of March 31, 2021, 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*.



August 4, 2021  
Arlington, VA

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

This peer review was conducted virtually due to COVID-19 pandemic restrictions that precluded us from conducting an on-site visit. During this peer review, we conducted a kickoff meeting on April 26, 2021, and held virtual interviews with the AASB Branch Chief on April 26, 2021, and collectively the AASB Audit team of five senior level auditors on May 11, 2021. Those selected for the interviews was based on the AASB organizational chart provided within the peer review contract Statement of Work. The AASB team is in Sacramento, 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 control 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

The AASB policy is to fully comply with GAGAS quality control standards in every respect. The AASB commitment to quality control and quality control policies and procedures are covered in the Producing Policy and Directives document that was thoroughly reviewed for this peer review. Quality control procedures are addressed in this policy document. To ensure uniformity, report writing guidelines are in the process of being memorialized in the draft Audit Handbook, Chapter 5, to which the peer review auditors were given visibility. These standards are to be followed, where applicable, in preparing their audit reports.

The draft Chapter 5 of the Audit Handbook is titled "Preparation and Distribution of Audit Reports". Within this handbook, the AASB quality control system description includes the following sections: Introduction; Philosophy, Organization, and Approach to Providing Quality Services; Elements of AASB's Quality Control System and Administration and Monitoring of AASB's Quality Control System. As part of the quality control standards review, we evaluated the internal quality control reviews performed by the AASB during the period under review. The objective of the internal QARs is to provide reasonable assurance that AASB's system of quality control is suitably designed; AASB is complying with its system of quality control; and audit and management control activities were performed in accordance with

AASB policies and procedures. The quality assurance and management control review serves as a basis to evaluate the quality of the audit work performed and provide suggestions to improve the quality of the audit work, system of quality control, and management controls, as necessary.

During the review, the peer review auditors selected six of 26 audits identified in AASB listings of assignments. The listing showed the date the first assignment was received by AASB on June 24, 2019, through the date in which the last assignment on the listing was received on October 22, 2020. We determined that selecting the audits during the period from June 2019 through October 2020 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 audits from the in-scope timeframe and for this peer review and to apply a completeness test. A total of 26 audits represented the population of audit from which the sample was determined. The audits selected for sampling included complete/report issued and assignment in progress audits. Using CIGIE-approved checklists, the sample population was reviewed for the peer review.

Since the AASB was newly formed in 2019 and the auditors came from the Defense Contract Audit Agency (DCAA), the Branch Chief explained that they are very familiar with contract auditing requirements per the DCAA's own audit manual. Therefore, by inference, the DCAA audit standards have been adopted for conducting audits at AASB. The peer review auditors were provided a combination of four support documents to use as a current frame of reference for which AASB audits are conducted: the AASB Producing Policy and Directives; Draft Chapter 2 – Auditing Standards and Chapter 5 – Preparation and Distribution of Audit Reports; and completion of the Policies and Procedures Questionnaire. The Producing Policy and Directives and Draft Chapters for the eventual AASB Audit Handbook are closely aligned with GAGAS requirements. The Philosophy, Organization and Approach to Providing Quality Services (B Section of Producing Policy and Directives) specifically mentions that “auditing is in accordance with GAGAS”. Section C of the Producing Policy and Directives related to the AASB and the individual auditor's independence and ethical requirements, the exercise of professional judgment in conducting the audit and in preparing related reports, the qualifications of the staff, and the presence of quality controls. Specific reference is made to 2018 GAGAS Chapter 3 and 2011 GAGAS Chapters 1 and 3. Auditors are required to follow the Yellow Book standards that are applicable to the objectives of each audit that is performed.

AASB audit standards, pre-audit procedures and planning through reporting phases of the audit were evaluated. The peer review analysis was also assessed in the context of internal audit industry standards espoused by the Institute of Internal Auditors (IIA) and its International Professional Practice Framework (IPPF). The following are especially called out a result of the peer review audits that were selected for sampling and review conducted by the peer review auditor.

- Appendix A – Policies and Procedures Questionnaire addresses how internal controls are treated during the AASB audit process. Draft Chapter 2, Auditing Standards, Section 2-306 addresses how internal controls are to be addressed and tested.
- Engagement design and execution is detailed in Section C.4. Engagement Performance of the AASB Producing Policy and Directives. This section covers the audit planning, fieldwork, review of working papers and documentation processes. This is supported by the draft Chapter 2 – Auditing Standards and draft Chapter 5 – Preparation and Distribution of Audit Reports.

- Draft Chapter 2 – Auditing Standards, Section 2-400 covers identifying deficiencies and weaknesses during the audit process.
- Risk assessment templates detail the integration of risks and controls and how risks (such as inherent risks, fraud risks, etc.) are identified and assessed during the AASB audit process. The table of contents for the Audit Handbook (in process of being developed) will focus on Audit Planning and Risk Assessments.

The peer reviewers determined that the audit processes depicted in the flowchart provided in response to the peer review documentation request listing align directly with the process conducted during the audit process for the sample audits that were reviewed.

The AASB Branch Chief completed the Appendix A: Audit Policies and Procedures Questionnaire which was designed to determine (1) the adequacy of the reviewed audit organization's policies and procedures, and (2) whether those policies and procedures, if properly adopted and implemented, would provide the reviewed audit organization with reasonable assurance of compliance with *Government Auditing Standards* (GAS), commonly referred to as generally accepted government auditing standards (GAGAS). This Appendix satisfied the objectives of the External Peer Review and the Modified Peer Review related to policies and procedures as detailed in the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (March 2020 Guide).

Throughout the peer review, we interacted closely with key management and staff in Sacramento, California. 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 control process, individual audits, personnel performance, and evaluations, hiring and evaluation practices and training. Our peer review procedures also included inspecting an audit training slide deck, CPE records, materials documenting the personnel hiring process and specific audit work papers (that align with the selected sample for the peer review) and quality control procedures and reports.

**Note 2: Audits Selected for Peer Review and Examined**

We reviewed the following AASB audits/assignments. The following constitute the sampling of the universe of audits/assignments evaluated for this peer review:

<b>Assignment Number</b>	<b>Actual Final Report Date</b>	<b>Report Title</b>
1001-2020A15500001	12/12/2019	Provisional Billing Rate Determination Audit on the [REDACTED]
1001-2018A10100003	12/4/2020	Incurred Cost Audit on [REDACTED]
1001-2020A17741001	9/17/2020	Post award Accounting System Audit on [REDACTED]
1001-2021A17900001	Non-Audit Service to close out with Memorandum	Rate Verification Audit on the [REDACTED]
1001-2020A17740001	7/24/2020	Pre award Accounting System audit on [REDACTED]
1001-2020A19100001	To be determined (assignment in progress)	Compliance of Revised Disclosure Statement audit on [REDACTED]



## **Additional Background Information for the Peer Review**

As a federal shared provider, ICSD created the AASB in 2019 to provide acquisition audit services on behalf of civilian federal agencies. AASB reviews, analyzes, and audits federal contractors who claim incurred costs on flexibly priced federal contracts. AASB ensures that contractor's claimed incurred costs comply with applicable laws, rules, and regulations. AASB audits are conducted in accordance with GAGAS, the Federal Acquisition Regulation (FAR) and applicable policies and procedures. ICSD and AASB is headquartered and wholly operated in Sacramento, California. The AASB team are federal employees and are currently comprised of one supervisory GS-511-14 auditor and five senior GS-511-13 auditors.