



# Defense Logistics Agency MANUAL

DLAM 5108.01  
Effective January 30, 2012  
J5

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## Executing the Internal Review Function

References: Refer to Enclosure 1

1. **PURPOSE.** The purpose of this manual is to establish consistent procedures for the execution of the Internal Review (IR) function across the Defense Logistics Agency (DLA), and to publish professional standards required for an effective IR program.

a. This manual provides procedures by which the DLA IR Offices shall execute their functions to ensure consistency and excellence in the IR function across DLA.

b. This manual outlines the professional standards by which the IR function shall be executed in DLA, and it identifies the professional competencies which IR evaluators shall possess, cultivate, and maintain.

c. This manual is published under the authority of DLAI 5108.01, “IR Function” (Reference 1).

2. **APPLICABILITY.** This manual applies to Headquarters (HQ) DLA, DLA Primary Level Field Activities (PLFA), and other DLA Field Activity (FA) IR Offices.

3. **RESPONSIBILITIES.** See Enclosure 2.

4. **PROCEDURES.** Enclosure 3 provides general standards for conducting the IR function in DLA. Enclosure 4 provides guidance for planning of IR functions within the context of DLA management reviews, as well as for coordinating IR activities with other related functions. Enclosure 5 provides IR field work standards. Enclosure 6 provides guidance on internal controls, and detecting and reporting potential fraud and illegal acts. Enclosure 7 provides

guidance on communicating findings at the various phases of an IR with multiple levels of DLA management. Enclosure 8 provides guidance on IR documentation and data integrity. Enclosure 9 provides reporting standards for the DLA IR Offices. Enclosure 10 provides procedures for following up on IR findings.

5. EFFECTIVE DATE, This Manual is effective immediately.

Director, DLA Strategic Plans and Policy  
January 30, 2012

Enclosures(s)

- Enclosure 1 – References
- Enclosure 2 – Responsibilities
- Enclosure 3 – General Standards for Internal Review
- Enclosure 4 – Planning and Coordinating Internal Review Activities
- Enclosure 5 – Fieldwork Standards
- Enclosure 6 – Internal Controls and Detecting and Reporting Fraud and Illegal Acts
- Enclosure 7 – Communicating with Management
- Enclosure 8 – Internal Review Documentation
- Enclosure 9 – Reporting Standards
- Enclosure 10 – Follow-Up

## ENCLOSURE 1

### REFERENCES

1. DLAI 5018.01, "Internal Review Function", January 27, 2012.
2. Comptroller General of the United States Guidance, "Government Auditing Standard Guidance on GAGAS Requirements for Continuing Professional Education," April 2005
3. United States General Accounting Office, "Standards for Internal Control in the Federal Government," November 1999
4. United States General Accounting Office, "Internal Control Management and Evaluation Tool," August 2001
5. Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control Integrated Framework," January 2009
6. 31 U.S.C. §3512, "Federal Managers' Financial Integrity Act (FMFIA) of 1982", September 8, 1982
7. Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004
8. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," July 29, 2010
9. Defense Logistics Agency, "DLAI 5107: Managers' Internal Control (MIC) Program," September 15, 2009.
10. DoD Financial Improvement and Audit Readiness (FIAR) Guidance, May 15, 2010.
11. DLAI 5304, "Records Management", September 15, 2008.
12. DLAI 6304, "Information Security Program", March 16, 2010.

ENCLOSURE 2  
RESPONSIBILITIES

1. DLA STRATEGIC PLANS & POLICY (J5). The Director, DLA Strategic Plans & Policy (J5) shall:

a. Develop and publish procedures and professional standards for IR evaluators across DLA, as required in Reference 1.

b. Assess DLA IR Office compliance with the professional standards, as required in Reference 1, and addressed in detail in Enclosures 3-10 of this manual.

c. Execute DLA's Enterprise Risk Management (ERM) program to identify and evaluate Agency-level risks and develop an Agency-level risk profile.

d. Provide the DLA Enterprise risk profile to the DLA Stewardship Committee as an input to focusing audit, IR, and other DLA management review planning processes.

e. Coordinate and synchronize the execution of IR evaluations, inspections, and other management reviews across DLA, to facilitate such reviews with a view toward avoiding duplication and ensuring effective coordination and cooperation.

f. Track the assignment and monitor the completion of corrective actions generated by PLFA/echelon reviews, IR evaluations, and other management reviews.

g. Provide an annual update to the DLA Stewardship Committee on accomplishments of the IR function and other management review functions from across DLA.

2. COMMANDERS/DIRECTORS OF THE DLA PLFAs/FAs. The Commanders/Directors of the DLA PLFAs/FA shall:

a. Ensure IR evaluators are granted full and unrestricted access to all files, electronic and otherwise, needed in connection with a review, inquiry, or other IR service, consistent with their security level and within the scope of the approved review.

b. Ensure that their IR Office follows published procedures in conducting IR functions, and enforce accountability for IR activities to comply with published professional standards, as required by Reference 1.

c. Establish and provide effective liaison services to both internal and external audit organizations such as the Government Accountability Office (GAO), the Office of the Inspector General, DoD (DODIG), and the DLA Office of Inspector General (DLA OIG).

d. Adjudicate and resolve disagreements on IR report results and associated recommendations between IR, functional directors, and other subordinate organizations.

3. DIRECTORS OF THE DLA IR OFFICES. The Directors of the IR Offices shall:

a. As applicable, support or execute the PLFA's/FA's Local Risk Management (LRM) efforts to identify and evaluate local risks and provide all identified risks to DLA's ERM program office (J5) as inputs to the Agency-level risk profile. Elevate through the chain of command to the DLA ERM program office results of all IRs that have Agency-wide implications.

b. Annually develop a flexible IR plan proposal, identifying areas of most risk to the Commander/Director, and provide to the DLA Stewardship Committee via J5 for consideration as part of the broader DLA audit and management review planning process.

c. Conduct independent reviews of local programs and operations to determine whether internal control systems are adequate, information is reliable, applicable laws, regulations, and policies are followed, resources are safeguarded and managed economically and efficiently, and desired results are achieved.

d. Evaluate, during the normal course of IR evaluations, the effectiveness of internal controls, the adequacy of internal control evaluations, and actions taken to correct material weaknesses. Advise the Commander/Director on the adequacy of managers' internal controls, and provide technical advice, assistance, and consultation on internal controls to assessable unit managers as necessary. Support OMB Circular A-123 test plan development, execution and evaluation at the local site.

e. Advise the Commander/Director the degree to which weaknesses identified through IRs, and internal and external audits are considered during preparation of the Commander's/Director's annual assurance statement, required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Reference 6), and prepared in accordance with Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control" (Reference 7), DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures" (Reference 8), and DLA Instruction 5107, "Managers' Internal Control (MIC) Program" (Reference 9), and DoD Financial Improvement and Audit Readiness (FIAR) Guidance (Reference 10).

f. Review local Continuous Process Improvement (CPI) efforts to maintain or strengthen internal controls, provide recommendations to CPI teams regarding reengineering opportunities found during local assessments, and use CPI-derived information to identify potential local risks and other potential IR plan requirements.

g. Coordinate and cooperate with other IR Offices, inspections teams, and other management review groups to ensure effective use of IR resources, preclude unnecessary duplication or overlap of IR efforts, and permit efficient oversight of DLA programs and operations.

h. Populate and maintain the DLA IR recommendation tracking system, and provide effective follow-up on IR findings.

i. Execute the IR quality control program in accordance with Reference 1, and as outlined in Enclosure 3, which defines procedures for evaluating the quality and level of service provided by the IR office. The IR quality control program will include formal annual self-evaluations and an external review not less than once every three years. Reviews will evaluate organization and staffing, program management, review planning, review process, audit compliance and liaison, and consulting and other advisory services.

j. Provide liaison with internal and external audit organizations (GAO, DODIG, DLA OIG). The external audit liaison function shall be executed in close collaboration and coordination with the DLA OIG.

(1) Assist the Commander/Director in understanding the scope and intent of audit objectives, sites, milestones, and other information on audits about to start or underway.

(2) Arrange entrance conferences, discussions, and exit conferences with both internal and external audit organizations and the appropriate organization officials.

(3) Provide administrative support to external audit organizations, when possible.

(4) Ensure accurate, adequate, responsive, and coordinated comments are provided to “draft” audit findings and recommendations.

k. Ensure completion of assigned corrective actions associated with audits, IR evaluations, and other management reviews.

l. Ensure that the IR staff collectively possesses the knowledge, skills, and experience necessary before beginning work on IR assignments, in accordance with Enclosure 3.

m. Ensure proper career development, including professional training programs, of all assigned IR personnel, in accordance with Enclosure 3.

(1) Ensure that management of the IR Office and their IR evaluators meet the Continuing Professional Education (CPE) requirements and maintain documentation of the CPE completed, in accordance with Enclosure 3.

(2) In conjunction with the individual IR evaluator, monitor his or her progress toward meeting the CPE requirements.

(3) Maintain supporting information of their attendance at or completion of CPE programs for a minimum of the current and the prior 2-year (i.e. calendar year) training cycle.

ENCLOSURE 3  
GENERAL STANDARDS FOR CONDUCTING INTERNAL REVIEW

1. PURPOSE. This enclosure establishes general standards and provides guidance for performing IRs, consulting and advisory services, follow-up, and liaison. These general standards concern the fundamental requirements for ensuring the credibility of IR evaluators' results. Credibility is essential to all DLA IR activities performing work that DLA leaders rely on for making decisions. These general standards encompass the independence of the IR Offices and their individual evaluators; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of IR staff, including the need for their Continuing Professional Education (CPE); and the existence of quality control systems. These general standards provide the underlying framework that is critical in effectively applying the fieldwork and reporting standards (described in the following enclosures) when performing the detailed work associated with DLA IR engagements, and when preparing related reports and other products. Therefore, these general standards shall be followed by all DLA IR Offices and evaluators.

2. MANAGEMENT OF THE DLA INTERNAL REVIEW OFFICE. The heads of the DLA IR Offices shall develop and strive to maintain the following elements within their respective organizations.

a. Conflicts of Interest/General Impairment

(1) In all matters DLA IR Offices and their individual evaluators must be free both in fact and appearance from personal, external, and organizational conflicts of interest and impairments. DLA IR Offices and evaluators have a responsibility to maintain freedom from such impairments so that their opinions, conclusions, judgments, and recommendations will be impartial, and viewed as such by knowledgeable third parties.

(2) IR evaluators shall avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the evaluators are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work. IR evaluators need to consider and document three general classes of impairments to independence – personal, external, and organizational.

b. Personal Impairments

IR evaluators participating on an engagement must be free from personal impairments to independence. Personal impairments of evaluators result from relationships or beliefs that might cause evaluators to limit the extent of the inquiry, limit disclosure, or weaken or slant review results in any way. Individual evaluators shall notify and document to the appropriate officials within their organizations if they have any personal impairment to independence.

### c. External Impairments

DLA IR Offices must be free from external impairments to independence, because such factors may restrict the work or interfere with evaluators' ability to form independent and objective opinions and conclusions. External impairments to independence occur when evaluators are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the activity being reviewed or oversight organizations.

### d. Organizational Impairments

(1) The independence standard does not pose any limitations on the types of services IR Office organizations can perform for their customers, as long as the services do not involve making management decisions.

(2) The IR evaluators may assist management officials in the implementation of recommended solutions, such as establishing internal controls or implementing a database system, or other systems and tools, that would result in more efficient operations.

(3) DLA IR Offices may be presumed to be free from organizational impairments to independence if the head of the IR Office is accountable to the highest levels of their PLFA/FA, such as Commander/Director, or Deputy Commander/Deputy Director; reports the review results to the highest levels of their organization; is located organizationally outside the staff or line management function of the activity under review; has access to the highest levels of their PLFA/FA organizations; and is sufficiently removed from political pressures to conduct reviews and report results, opinions, and conclusion objectively without fear of political reprisal.

### e. Professional Judgment

(1) IR evaluators must use professional judgment in planning and performing engagements and reporting the results. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of supporting information.

(2) Judgment is demonstrated by using the evaluators' professional knowledge, skills, and experience to diligently perform, in good faith and with integrity, the gathering of information and the objective evaluation of the sufficiency and appropriateness of supporting information is a critical component of reviews. Professional judgment and competence are interrelated because judgments made are dependent upon the evaluators' competence.

(3) Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved with an engagement, as well as the professional judgment of individual evaluators. In addition to personnel directly involved in the review, professional judgment may involve collaboration with other stakeholders, outside experts, and management in the reviewed organization.



(4) Professional judgment entails carrying out professional responsibilities, including following independence standards, maintaining objectivity and credibility, assigning competent IR staff to the assignment, defining the scope of work, evaluating and reporting the results of the work, and maintaining appropriate quality control over the assignment process. These attributes are essential to performing and reporting on a review.

(5) Using professional judgment is important in determining the required level of understanding of the review's subject matter and related circumstances. This includes consideration about whether the review team's collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter under review may contain a significant inaccuracy or could be misinterpreted.

(6) Considering the risk level of each assignment, including the risk that they may come to an improper conclusion is another important issue. Within the context of review risk, exercising professional judgment in determining the sufficiency and appropriateness of supporting information to be used to support the findings and conclusions, based on the review objectives and any recommendations reported, is an integral part of the review process.

(7) As an element of professional judgment, IR evaluators shall document significant decisions affecting the review's objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment.

(8) While this standard places responsibility on each IR Office and evaluator to exercise professional judgment in planning and performing a review engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the IR Office or evaluator. Absolute assurance is not attainable because of the nature of supporting information. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific review, but rather identifying, considering, minimizing, mitigating, and explaining them.

#### f. Competence

(1) The DLA IR Office staff assigned to perform engagements must collectively possess adequate professional competence for the tasks required. This standard places responsibility on IR activities to ensure that each engagement is performed by staff that collectively has the knowledge, skills, and experience necessary for that assignment. Accordingly, IR activities shall have a process for recruiting, hiring, continuously developing, and evaluating their staffs to assist the activity in maintaining a workforce that has adequate competence.

(2) The nature, extent, and formality of the process will depend on various factors such as the size of the IR organization, its work, and its structure. The staff assigned to conduct an engagement must collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on the engagement.

(3) The staff assigned to an engagement shall collectively possess knowledge of the standards applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed; general knowledge of the

environment in which the reviewed entity operates and the subject matter under review; skills to communicate clearly and effectively, both orally and in writing; and other applicable skills appropriate for the work being performed.

g. Professional Certifications

(1) The IR Offices should encourage and support professional certifications of their staffs and participation in professional organizations. Reimbursement for employee certification shall be in accordance with applicable DLA policy on payment of licenses and certifications.

(2) Certifications may include, but are not limited to, Certified Public Accountant, Certified Internal Auditor, Certified Government Financial Manager, Certified Defense Financial Manager, Defense Acquisition Workforce Improvement Act (DAWIA), and various Internal Control Certifications.

h. Continuing Professional Education (CPE)

(1) DLA IR evaluators performing work under these standards, including planning, directing, performing fieldwork, or reporting on a review under these standards, need to maintain their professional competence through CPE. Therefore, each evaluator performing work under the standards in this manual shall complete, every two years, at least 24 hours of CPE that is directly related to the DLA IR evaluator's profession, the government environment, or the specific or unique environment in which the reviewed DLA organization operates.

(2) Evaluators who are involved in any amount of planning, directing, or reporting on IR engagements and those evaluators who are not involved in those activities, but charge 20 percent or more of their time annually to IR engagements, shall also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two year period) that enhances the evaluator's professional proficiency to perform review engagements.

(3) The CPE programs are structured educational activities with learning objectives designed to maintain or enhance participants' knowledge, skills, and abilities in areas applicable to performing review engagements. Determining what subjects are appropriate for individual evaluators to satisfy both the 80-hour and the 24-hour requirements is a matter of professional judgment to be exercised by evaluators in consultation with appropriate officials in their IR Offices.

(4) The IR Office shall ensure that evaluators develop and maintain subject matter expertise in areas and topics relevant to their organization's local mission.

(5) Improving their own competencies and meeting CPE requirements are primarily the responsibilities of individual evaluators. The IR Office shall have quality control procedures to help ensure that evaluators meet the continuing education requirements, including documentation of the CPE completed.

## i. Quality Control and Assurance

(1) DLA IR Offices' system of quality control encompasses the IR Office's structure and the policies adopted and procedures established to provide the organization with reasonable assurance of complying with applicable standards governing DLA IR engagements. An IR organization's internal quality control system shall include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

(2) The nature and extent of an IR organization's internal quality control system depends on a number of factors, such as its size, the degree of operating autonomy allowed, its personnel and its IR offices, the nature of its work, its organizational structure, and appropriate cost-benefit considerations. Thus, the system established by individual IR activities will vary as will the need for, and extent of, its documentation of the systems. However, each IR organization shall prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. The form and content of such documentation is a matter of judgment. Documentation of compliance shall be retained for a period of time sufficient to enable those performing monitoring procedures and reviews to evaluate the extent of the IR Office's compliance with the quality control policies and procedures.

(3) Each DLA IR Office performing IR engagements in accordance with the standards in this manual shall have an appropriate internal quality control system in place and shall perform and document an annual self-assessment review.

(4) Each DLA IR Office shall also undergo a periodic assessment review, conducted by J5, of its compliance with policies addressed in Reference 1 and procedures outlined in this manual.

ENCLOSURE 4  
PLANNING AND COORDINATING INTERNAL REVIEW ACTIVITIES

1. PURPOSE. This enclosure covers the planning process for IR at the PLFA/FA level, in the context of its place as an element of the overall DLA management review synchronization. This enclosure provides guidance for coordinating IR activities. The size and complexity of DLA makes universal evaluation coverage on a cyclical basis generally impractical. Accordingly, it is essential that the available IR and other management review resources be effectively allocated and coordinated to provide maximum benefit to DLA management and other stakeholders.

2. PLANNING PROCESS TO DEVELOP AND MAINTAIN AN INTERNAL REVIEW PLAN

a. DLA IR Offices shall execute their planning process as an integrated element of the overarching DLA audit and management review planning cycle, with dates specifying the stages for developing the plan. The IR planning cycle shall generally be conducted on an annual basis, but with an opportunity to adjust as circumstances dictate.

b. DLA IR Offices shall use risk-based factors and priorities, generated via development, implementation, and execution of a local risk management (LRM) program. The planning process shall:

- (1) Reflect the effective use of IR resources.
- (2) Ensure that the issues most important to management are addressed.
- (3) Assist the parent organization in effectively meeting its mission and strategic goals.
- (4) Provide for communication with the local Commander/Director in establishing IR needs and risks.
- (5) Involve timely communication with the DLA IR Office's senior leaders, management, and, as appropriate other stakeholders.
- (6) Recognize the need for revisions as circumstances change; for example, semi-annual reviews of the annual plan.
- (7) Include coordination, as appropriate, with other management review functions and DLA OIG to ensure sufficiency of IR coverage and avoid duplication.

c. When considering the development of an IR annual proposal, the IR Office shall balance adequate IR coverage of substantive operations, programs, and high-risk areas. The IR Office shall focus on proposing IR areas that are:

- (1) Required by statute or regulation.

(2) Consistent with DLA's strategic plan and that assist the organization in achieving its mission and performance goals.

(3) Based on an Enterprise-level assessment of risk.

(4) Responsive to the concerns of HQ DLA, DoD, and Congress for oversight of key programs.

(5) Reflect priorities of the local PLFA Commander.

d. As determined appropriate, the IR Office shall apprise J5 of IR scheduling changes in a timely manner.

### 3. DEVELOPING INTERNAL REVIEW ANNUAL PROPOSALS

a. IR annual proposed plans shall reflect:

(1) Effective use of IR resources.

(2) Consideration of communications with HQ DLA and other IR Office stakeholders.

(3) Planned assistance to HQ DLA to effectively meet mission and strategic goals.

(4) Priorities of the local PLFA Commander.

b. IR annual proposed plans shall be used as a planning and scheduling tool and shall serve as a notice to management of the evaluations proposed in their areas of responsibility. The plan shall be flexible and adjusted as necessary to keep it current and aligned to Enterprise management review priorities established by the Stewardship Committee.

### 4. COORDINATION REQUIREMENTS

a. Coordination with any organization shall begin as early in the review planning process as is practical.

b. Coordination shall involve sharing IR plans and other management review plans, as well as establishing close liaison and good working relationships with other DLA IR Offices and management review organizations and functions across DLA.

c. During the development of the IR annual proposal, the IR Office must coordinate with the DLA OIG Investigations Division and servicing legal office to ensure the proposed review will not interfere with any ongoing investigations or legal proceedings prior to proceeding with the review.

(1) Liaison with other DLA Organizations. DLA J5 and the DLA IR Offices shall collaborate to establish procedures for identifying efforts that are completed, in process, or planned by other inspection organizations and management review groups, as well as DLA audit and investigative reviews, and consider those efforts in the planning process.

(2) DLA Stewardship Committee. The DLA Stewardship Committee is a senior leader governance forum, focused on improving the effectiveness and efficiency with which DLA uses the resources assigned to it. The Stewardship Committee also provides senior level oversight of all of DLA's Stewardship efforts, to include the DLA risk management and internal controls processes. Since these are integral areas of focus for the IR function, the Stewardship Committee will play an active role in coordinating IR with other management review functions, the Agency audit program, and a myriad of other management activities.

## ENCLOSURE 5

### FIELDWORK STANDARDS

1. PURPOSE. This enclosure prescribes fieldwork standards and provides guidance for DLA IRs. Accordingly, it is essential that IR staff adhere to the standards laid out herein.

2. ELEMENTS OF A SUCCESSFUL INTERNAL REVIEW ENGAGEMENT. The fieldwork standards for IRs relate to: planning the review; supervising staff; obtaining sufficient, competent, and relevant supporting information; and preparing review documentation. The concepts of reasonable assurance, significance, and review risk form a framework for applying these standards and are included throughout the discussion of reviews.

#### a. Reasonable Assurance

(1) Reviews that comply with the standards of this regulation provide reasonable assurance that supporting information is sufficient and appropriate to support the evaluators' findings and conclusions. Thus, the sufficiency and appropriateness of supporting information needed and tests of supporting information will vary based on the review objectives, findings, and conclusions. Objectives for reviews range from narrow to broad and involve varying types and quality of supporting information. In some engagements, sufficient, appropriate supporting information is available, but in others, information may have limitations. Professional judgment assists evaluators in determining the review scope and methodology needed to address the review's objectives, while providing the appropriate level of assurance that the obtained supporting information is sufficient and appropriate to address the review objectives.

#### b. Significance in a Review

(1) The concept of significance assists evaluators throughout a review, including when deciding the type and extent of review work to perform, when evaluating results of review work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the review, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the reviewed program or activity. Professional judgment assists evaluators when evaluating the significance of matters within the context of the review objectives.

#### c. Review Risk

(1) Review risk is the possibility that the IR evaluators' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as supporting information that is not sufficient and/or appropriate, an inadequate review process, or intentional omissions or misleading information due to misrepresentation or fraud. The

assessment of review risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work, size of the program in terms of dollar amounts and number of citizens served, adequacy of the reviewed entity's systems and processes to detect inconsistencies, significant errors, or fraud, and evaluators' access to records, also impact review risk. Review risk includes the risk that evaluators will not detect a mistake, inconsistency, significant error, or fraud in the documentation supporting the review. Review risk can be reduced by: taking actions such as increasing the scope of work; adding experts, additional evaluators, or other resources to the review team; changing the methodology to obtain additional supporting information, higher quality supporting information, or alternative forms of corroborating supporting information; or aligning the findings and conclusions to reflect the information obtained.

#### d. Engagement Planning

(1) IR Offices must adequately plan and document the planning of the work necessary to address the objectives of each review. Evaluators must plan the review to reduce review risk to an appropriate level for the evaluators to provide reasonable assurance that the supporting information is sufficient and appropriate to support the evaluators' findings and conclusions. This determination is a matter of professional judgment.

(2) In planning the review, evaluators shall assess significance and review risk and apply these assessments in defining the review objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the review. Therefore, evaluators may need to adjust the review objectives, scope, and methodology as work is being completed.

(3) The objectives are what the review is intended to accomplish. They identify the review subjects and performance aspects to be included, as well as, the potential finding and reporting elements that the evaluators expect to develop. Review objectives can be thought of as questions about the reviewed process that evaluators seek to answer based on supporting information obtained and assessed against criteria.

(4) Scope is the boundary of the review and is directly tied to the review objectives. The scope defines the subject matter that evaluators will assess and report on, such as a particular program or aspect of a program, the necessary documentation or records, the period of time reviewed, and the locations that will be included.

(5) The methodology describes the nature and extent of review procedures for gathering and analyzing supporting information to address the review objectives. Review procedures are the specific steps and tests evaluators will carry out to address the review objectives. Evaluators shall design the methodology to obtain sufficient, appropriate supporting information to address the review objectives, reduce review risk to an acceptable level, and provide reasonable assurance that the supporting information is sufficient and appropriate to support the evaluators' findings and conclusions. Methodology includes both the nature and extent of review procedures used to address the review objectives.

(6) Evaluators shall assess and document review risk and significance within the context of the review objectives by gaining an understanding of: the nature and profile of the programs



and the needs of potential users of the review report; internal control as it relates to the specific objectives and scope of the review; information systems controls for purposes of assessing review risk and planning the review within the context of the review; legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that is significant within the context of the risk objectives; and results of previous reviews that directly relate to the current review objectives.

(7) During planning, evaluators shall identify and document the potential criteria needed to evaluate matters subject to review; identify sources of review supporting information and consider the amount and type of supporting information needed given review risk and significance; evaluate whether to use the work of other evaluators and experts to address some of the review objectives; assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the review; communicate about planning and performance of the review to management officials, those charged with governance, and others as applicable; and prepare a written review plan.

#### e. Nature and Profile of the Program

(1) As evaluators plan their reviews, they shall obtain an understanding of and document the nature of the program or program's components under review and the potential use that will be made of the review results or reports. The nature and profile of a program includes visibility, sensitivity, and relevant risks associated with the program under review; age of the program or changes in its conditions; size of the program in terms of total dollars, number of DoD Civilians/Military Personnel/DoD Contractors affected, or other measures; level and extent of review or other forms of independent oversight; the program's strategic plan and objectives, and external factors or conditions that could directly affect the program.

(2) Obtaining an understanding of the program under review helps evaluators to assess the relevant risks associated with the program and the impact on the review objectives, scope, and methodology. The evaluators' understanding may come from knowledge they already have about the program or knowledge they gain from inquiries and observations they make in planning the review.

#### f. Internal Control

(1) IR evaluators shall obtain and document an understanding of internal control that is significant within the context of the review objectives. For internal control that is significant within the context of the review objectives, evaluators shall assess whether internal controls have been properly designed and implemented. For those internal controls that are deemed significant within the context of the review objectives, evaluators shall plan to obtain sufficient, appropriate information to support their assessment about the effectiveness of those controls.

(2) Information systems controls are often an integral part of an entity's internal control. Thus, when obtaining an understanding of internal control significant to the review objectives, evaluators shall also determine whether it is necessary to evaluate information systems controls. Information systems controls are addressed in greater detail in subsection g. (below).

(3) IR evaluators may modify the nature, timing, or extent of the review procedures based on the evaluators' assessment of internal control and the results of internal control testing. For example, poorly controlled aspects of a program have a higher risk of failure, so evaluators may choose to focus their efforts in these areas. Conversely, effective controls at the reviewed entity may enable the evaluators to limit the extent and type of review testing needed.

(4) IR evaluators may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other evaluators' reports, or direct tests. The procedures evaluators perform to obtain an understanding of internal control may vary among reviews based on review objectives and review risk. The extent of these procedures will vary based on the review objectives, known or potential internal control risks or problems, and the evaluators' knowledge about internal control gained in prior reviews.

(5) Controls over program operations include policies and procedures that the reviewed entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help evaluators understand the program's operations that convert inputs and efforts to outputs and outcomes.

(6) Controls over the relevance and reliability of information include policies, procedures, and practices that officials of the reviewed entity have implemented to provide themselves reasonable assurance that operational and financial information they use for decision making and reporting externally is relevant and reliable and fairly disclosed in reports.

(7) A subset of these categories of internal control objectives is the safeguarding of assets and resources. Controls over the safeguarding of assets and resources include policies and procedures that the reviewed entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

(8) A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct impairments of effectiveness or efficiency of operations; misstatements in financial or performance information; and violations of laws and regulations, on a timely basis.

(9) A deficiency in design exists when a control necessary to meet the control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

(10) A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

#### g. Information Systems Controls

(1) Understanding information systems controls is important when information systems are used extensively throughout the program under review and the fundamental business

processes related to the review objectives rely on information systems. Information systems controls consist of those internal controls that are dependent on information systems processing and include general controls and application controls.

(2) Information systems general controls are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.

(3) Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master data, application interfaces, and data management system interfaces.

(4) An organizations' use of information systems controls may be extensive; however, evaluators are primarily interested in those information systems controls that are significant to the review objectives. Information systems controls are significant to the review objectives if evaluators determine that it is necessary to assess the effectiveness of information systems controls in order to obtain sufficient, appropriate supporting information. When information systems controls are determined to be significant to the review objectives, evaluators shall then assess the effectiveness of such controls.

(5) Review procedures to evaluate the effectiveness of significant information systems controls include gaining an understanding of the system as it relates to the information, and identifying and evaluating the general controls and application controls that are critical to providing assurance over the reliability of the information required for the review.

(6) The assessment of information systems controls may be done in conjunction with the evaluators' consideration of internal control within the context of the review objectives, or as a separate review objective or review procedure, depending on the objectives of the review. Depending on the significance of information systems controls to the review objectives, the extent of review procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of review risk related to information systems controls are affected by the nature of the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.

(7) Evaluators shall determine which review procedures related to information systems controls are needed to obtain sufficient, appropriate supporting information to support the review findings and conclusions.

#### h. Previous Engagements

(1) Evaluators shall evaluate whether the reviewed entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the review objectives. When planning the review, evaluators shall ask

management of the reviewed entity to identify previous reviews, performance audits, or other studies that directly relate to the objectives of the review, including whether related recommendations have been implemented. Evaluators shall use this information in assessing risk and determining the nature, timing, and extent of current review work, to include determining the extent to which testing the implementation of the corrective actions is applicable to the current review objectives.

i. Identifying Review Criteria

(1) Evaluators shall identify criteria for planned reviews. Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expectations of what shall exist, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria also provide a context for evaluating supporting information and understanding the findings, conclusions, and recommendations included in the report. Evaluators shall use criteria that are relevant to the review objectives and permit consistent assessment of the subject matter.

(2) The following are some examples of criteria: purpose or goals prescribed by law or regulation or set by officials of the reviewed entity; policies and procedures established by officials of the reviewed entity; technically developed standards or norms; expert opinions; prior periods' performance; defined business practices; performance of other entities or sectors used as defined benchmarks.

j. Identifying Sources of Supporting Information and the Amount and Type of Information Required

(1) IR evaluators shall identify potential sources of information that could be used as supporting information. Evaluators shall determine the amount and type of supporting information needed to obtain sufficient, appropriate information to address the review objectives and adequately plan review work.

(2) If evaluators believe that it is likely that sufficient, appropriate supporting information will not be available, they may revise the review objectives or modify the scope and methodology and determine alternative procedures to obtain additional supporting information or other forms of supporting information to address the current review objectives. Evaluators shall also assess whether the lack of sufficient, appropriate supporting information is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate supporting information could be the basis for review findings.

k. Using the Work of Others

(1) IR evaluators shall determine whether other evaluators have conducted, or are conducting, reviews of the program that could be relevant to the current review objectives. The results of other evaluators' work may be useful sources of information for planning and performing the review. If other evaluators have identified areas that warrant further review work or follow-up, their work may influence the evaluators' selection of objectives, scope, and

methodology.

(2) If other evaluators have completed review work related to the objectives of the current review, the current evaluators may be able to rely on the work of the other evaluators to support findings or conclusions for the current review and thereby avoid duplication of efforts. If evaluators rely on the work of other evaluators, they shall perform procedures that provide a sufficient basis for that reliance. Evaluators shall consider the other evaluators' qualifications and independence and shall determine whether the scope, quality, and timing of the review work performed by the other evaluators is adequate for reliance in the context of the current review objectives. Procedures that evaluators may perform in making this determination include reviewing the other evaluators' report, review plan, or review documentation, and/or performing tests of the other evaluators' work. The nature and extent of supporting information needed will depend on the significance of the other evaluators' work to the current review objectives and the extent to which the evaluators will rely on that work.

#### l. Assigning Staff and Other Resources

(1) The IR Director shall assign sufficient staff and specialists with adequate collective professional competence to perform the review. Staffing a review includes, assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job; assigning a sufficient number of staff and supervisors to the review; and providing for on-the-job training of staff, when necessary.

#### m. Communicating with Management, Those Charged with Governance, and Others

(1) IR evaluators shall communicate an overview of the objectives, scope, and methodology, and timing of the review and planned reporting (including any potential restrictions on the report) to key stakeholders.

(2) Key stakeholders include management of the reviewed entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being reviewed; the individuals requesting review services; and those charged with governance, to include the DLA Stewardship Committee, as appropriate.

(3) In situations in which those charged with governance are not clearly evident, evaluators shall document the process followed and conclusions reached for identifying those charged with governance.

(4) Determining the form, content, and frequency of the communication is a matter of professional judgment, although written communication is preferred. IR evaluators shall issue an engagement letter to initially communicate information about the review to applicable stakeholders. Evaluators shall also conduct entrance and exit meetings with key stakeholders, unless such stakeholders decline the session(s).

(5) If a review is terminated before it is completed and a review report is not issued, IR evaluators shall report the fact to J5 and document the results of the work to the date of termination and why the review was terminated.

#### n. Preparing the Review Plan

(1) IR evaluators must prepare a written review plan for each review. The form and content of the written review plan may vary among reviews and may include a review strategy, review program, project plan, and review planning paper, or other appropriate documentation of key decisions about the review objectives, scope, and methodology of the evaluators' basis for those decisions. Evaluators shall update the plan, as necessary, to reflect any significant changes to the plan made during the review.

(2) A written review plan provides an opportunity for the review organization's management to supervise review planning and to determine whether the proposed review objectives are likely to result in a useful report, the review plan adequately addresses relevant risks, the proposed review scope and methodology are adequate to address the review objectives, available supporting information is likely to be sufficient and appropriate for purposes of the review, and sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the review and to meet expected time frames for completing the work.

#### o. Supervision

(1) IR Directors or those designated to supervise evaluators must properly supervise all review staff regularly.

(2) Review supervision involves providing sufficient guidance and direction to staff assigned to the review to address the review objectives and follow applicable standards, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.

#### p. Obtaining Sufficient, Appropriate Supporting Information

(1) Evaluators shall obtain sufficient, appropriate supporting information to provide a reasonable basis for their findings and conclusions.

(2) The concept of sufficient, appropriate supporting information is integral to a review.

(3) Appropriateness is the measure of the quality of supporting information that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the review objectives. In assessing the overall appropriateness of supporting information, IR evaluators shall assess whether the supporting information is relevant, valid, and reliable.

(4) Sufficiency is a measure of the quantity of supporting information used to support the findings and conclusions related to the review objectives. In assessing the sufficiency of supporting information, evaluators shall determine whether enough supporting information has been obtained to persuade a knowledgeable person that the findings are reasonable.

(5) In assessing supporting information, IR evaluators shall evaluate whether the information taken as a whole is sufficient and appropriate for addressing the review objectives and supporting findings and conclusions. Review objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of supporting information to address the objectives. For example, in establishing the appropriateness of supporting information, evaluators may test its reliability by obtaining supporting information, using statistical testing, or obtaining corroborating information. The concepts of review risk and significance assist evaluators with evaluating the review information.

(6) Professional judgment assists evaluators in determining the sufficiency and appropriateness of supporting information taken as a whole. Interpreting, summarizing, or analyzing supporting information is typically used in the process of determining the sufficiency and appropriateness of supporting information and in reporting the results of the review work.

(7) When appropriate, evaluators may use statistical methods to analyze and interpret supporting information to assess its sufficiency.

#### q. Types of Supporting Information

(1) There are different types and sources of supporting information that evaluators may use, depending on the review objectives. Supporting information may be obtained by observation, inquiry, or inspection. Each type of supporting information has its own strengths and weaknesses.

(2) The following contrasts are useful in judging the appropriateness of supporting information. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of information to support evaluators' findings and conclusions are matters of the evaluators' professional judgment based on the review objectives and review risk.

(3) Supporting information obtained when internal control is effective may be more reliable than information obtained when internal control is weak or nonexistent.

(4) Supporting information obtained through the evaluators' direct physical examination, observation, computation, and inspection may be more reliable than information obtained indirectly.

(5) Examination of original documents may be more reliable than examination of copies.

(6) Testimonial information obtained from an individual who is not biased and has direct knowledge about the area may be more reliable than testimonial information obtained from an individual who is biased or has indirect or partial knowledge about the area.

(7) Supporting information obtained from a knowledgeable, credible, and unbiased third party may be more reliable than information from management of the reviewed entity or others who have a direct interest in the reviewed entity.

(8) Testimonial information may be useful in interpreting or corroborating documentary or physical information. Evaluators shall evaluate the objectivity, credibility, and reliability of the testimonial information. Documentary information may be used to help verify, support, or challenge testimonial information.

(9) Surveys generally provide self-reported information about existing conditions or programs. Evaluation of the survey design and administration assists evaluators in evaluating the objectivity, credibility, and reliability of the self-reported information.

(10) When sampling is used, the method of selection that is appropriate will depend on the review objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger supporting information than that obtained from non-statistical techniques. When a representative sample is not needed, a targeted selection may be effective if the evaluators have isolated certain risk factors or other criteria to target the selection.

(11) When evaluators use information gathered by officials of the reviewed entity as part of their supporting information, they shall determine what the officials of the reviewed entity or other evaluators did to obtain assurance over the reliability of the information. Evaluators may find it necessary to perform testing of managements' procedures to obtain assurance or perform direct testing of the information. The nature and extent of the evaluators' procedures will depend on the significance of the information to the review objectives and the nature of the information being used.

(12) Evaluators shall assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to evaluators or extracted independently by the evaluators. The nature, timing, and extent of review 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 evaluators' findings and conclusions in light of the review objectives.

#### r. Level of Sufficiency

(1) An assessment of the sufficiency of supporting information required to support the evaluators' findings and conclusions is a matter of the evaluators' professional judgment.

#### s. Overall Assessment of Supporting Information

(1) IR evaluators shall determine the overall sufficiency and appropriateness of supporting information to provide a reasonable basis for the findings and conclusions, within the context of the review objectives. Professional judgments about the sufficiency and appropriateness of supporting information are closely interrelated, as evaluators interpret the results of review testing and evaluate whether the nature and extent of the supporting information obtained is sufficient and appropriate. Evaluators shall perform and document an overall assessment of the collective supporting information used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific supporting information.



(2) Sufficiency and appropriateness of supporting information are relative concepts, which may be thought of in terms of a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the evaluators may have some limitations or uncertainties about the sufficiency or appropriateness of some of the supporting information, they may nonetheless determine that in total there is sufficient, appropriate information to support the findings and conclusions.

(3) When assessing the sufficiency and appropriateness of supporting information, evaluators shall evaluate the expected significance of supporting information to the review objectives, findings, and conclusions, available corroborating information, and the level of review risk.

(4) The steps to assess supporting information may depend on the nature of the information, how the information is used in the review or report, and the review objectives.

(5) Supporting information is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the review objectives. This standard is to be used in all reviews.

(6) When the IR evaluators identify limitations or uncertainties in supporting information that is significant to the review findings and conclusions, they shall apply additional procedures, as appropriate. Such procedures include seeking independent, corroborating information from other sources; redefining the review objectives or limiting the review scope to eliminate the need to use the information; presenting the findings and conclusions so that the supporting information is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the supporting information, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions; and determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies.

#### t. Developing Findings

(1) IR evaluators shall plan and perform procedures to develop the elements of a finding necessary to address the review objectives. In addition, if evaluators are able to sufficiently develop the elements of a finding, they shall develop recommendations for corrective action if they are significant within the context of the review objectives.

(2) The elements of a finding include criteria, conditions, causes, and effects. The elements needed for a finding depend entirely on the objectives of the review. Thus, a finding or set of findings is complete to the extent that the review objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, a review objective may be limited to determining the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the review objective and development of the other elements of a finding would not be necessary. However, generally all elements should be addressed to identify the root cause of a condition and to develop sound recommendations.

(3) Criteria describe the desired state of the program, process, or entity.

(4) Condition is a situation that exists. The condition is determined and documented during the review.

(5) The cause identifies the reason or explanation for the condition or the factor(s) responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include: poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management.

(6) The effect is the impact of the condition on the ability of the program, process, or entity to achieve its objectives.

(7) IR evaluators may assess whether the supporting information provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference. When the evaluators' objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the review occurred, they are referred to as "cause."

(8) Identifying the cause of problems assists evaluators in making constructive recommendations for corrective action. Because problems can result from a number of plausible factors or multiple causes, the recommendation should clearly demonstrate and explain with supporting information and reasoning the link between the problems and the factor(s) identified as the cause or causes.

(9) IR evaluators may identify deficiencies in program design or structure as the cause of deficient performance. Evaluators also may identify deficiencies in internal control that are significant to the subject matter of the performance review as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the "cause." Often, the causes of deficient program performance are complex and involve multiple factors, and may include fundamental, systemic root causes.

(10) The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the evaluators' objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the review, "effect" is a measure of those consequences.

(11) Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks. When the evaluators' objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, "effect" is a measure of the impact achieved by the program. In this case, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to the program.

ENCLOSURE 6  
INTERNAL CONTROLS AND DETECTING AND REPORTING FRAUD AND ILLEGAL  
ACTS

1. PURPOSE. This enclosure provides guidance on internal controls and guidance on next steps when detecting and reporting potential illegal acts, fraud, and abuse via IR evaluations. It provides guidance on alerting responsible investigators when potential illegal acts or fraud may have occurred.

2. INTERNAL CONTROL GUIDANCE. DLA IR Offices shall evaluate internal controls as an element of conducting IR evaluations. Applicable guidelines include:

a. GAO-issued guidance (Reference 3) that provides a framework for understanding internal controls in the Federal government. The related tool, “Internal Control Management and Evaluation Tool,” (Reference 4) provides a structured approach for assessing the internal control structure. The GAO guidance incorporates definitions and fundamental concepts related to internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (Reference 5), and DoD Financial Improvement and Audit Readiness (FIAR) Guidance (Reference 10).

b. OMB Circular A-123 (Reference 6) defines management’s responsibility for internal control in Federal agencies and implements section 3512 of title 31, U.S.C. (Reference 7), commonly known as the “Federal Managers’ Financial Integrity Act (FMFIA) of 1982”. Reference 6 places particular emphasis on strengthening the requirements for conducting management’s assessment of internal controls over financial reporting but is applicable to other internal control-related activities of government operations. References 6 and 7 are at the center of the existing Federal requirements for improving internal controls.

c. DoD Instruction 5010.40 (Reference 8) requires that the DoD Components establish a manager’s internal control program to review, assess, and report on the effectiveness of internal DoD controls, including identifying and promptly correcting ineffective internal controls. Reference 8 further requires that DoD Components establish internal controls as part of the overall FMFIA process and the FMFIA process over financial reporting.

d. DLA Instruction 5107 (Reference 9) provides additional guidance specific to DLA’s approach to management of internal controls.

3. DETECTING AND REPORTING FRAUD AND ILLEGAL ACTS GUIDANCE. When IR activities result in the detection of potential fraud and illegal acts, DLA IR evaluators shall:

a. Employ sufficient knowledge of the characteristics and indicators of fraud, techniques used to commit fraud, and the types of fraud associated with the activities being evaluated to recognize it. Such knowledge is necessary for the IR evaluator to be reasonably effective in determining the adequacy of controls to deter opportunities to commit fraud or illegal acts, and in

evaluating supporting information that these acts might have been committed.

b. Recognize fraud indicators and immediately refer any findings which indicate the potential for fraud to the field activity fraud counsel and DLA OIG for appropriate further action.

#### 4. RELATIONSHIPS WITH FRAUD COUNSEL AND DLA OIG

a. IR evaluators must be careful when making a referral to an investigative organization that they are not attempting to determine criminal intent. IR evaluators are not responsible for proving fraud. The determination of fraud is made through the judicial or other adjudicative system and is beyond IR evaluators' professional responsibility. When indications of fraud are identified, the IR evaluators shall formally refer the matter to the field activity fraud counsel and DLA OIG, and then cease and desist from further review activity on the matter.

b. During planning for the IR, the evaluator must contact the DLA OIG Investigations Division and the servicing fraud counsel to ensure the review will not interfere with any ongoing investigations or legal proceedings prior to proceeding with the review.

ENCLOSURE 7  
COMMUNICATING WITH MANAGEMENT

1. PURPOSE. This enclosure provides guidance and procedures on the various phases in performing IR and procedures for communicating with management while conducting such services.

2. BACKGROUND. IRs are performed to assist management in arriving at solutions to problems, devising improvements to business operations, and accounting for DoD resources.

3. PERFORMING INTERNAL REVIEWS

a. In performing IRs, DLA IR evaluators shall:

(1) Exercise their professional judgment and conduct their evaluation with reasonable care and professional skepticism in accordance with published DLA professional standards addressed in Enclosures 3-10 of this manual.

(2) Document key decisions to reflect the progression of the work performed.

(3) Obtain access to records expeditiously and without delay to accomplish announced IR objectives.

b. IRs often involve planning, fieldwork, and reporting. The amount of time spent on each stage will vary based on the size, complexity, and nature of the review. However, formal decisions shall be made as progress is made throughout the review.

(1) Planning. During the planning stage, IR evaluators gather the needed information on the most significant and material areas for identifying risks and their significance to the review objective(s). Emphasis shall be on identifying the primary review objective(s) and designing the evaluation approach and plan. During planning, IR evaluators shall obtain an understanding of internal controls and risks, as appropriate, that are likely to occur as they relate to the IR objective(s) in order to effectively plan the review and to determine the nature, timing, and extent of tests to be performed. See Enclosure 4 for additional details on planning.

(2) Fieldwork. IR evaluators perform fieldwork to collect, analyze, interpret, and document the information necessary to accomplish the review objectives, complete the evaluation plan, and support the review results. IR evaluators shall complete an assessment of the sufficiency and appropriateness of supporting information identified during fieldwork. See Enclosure 5 for comprehensive discussion of fieldwork.

(3) Reporting. IR evaluators shall prepare a written evaluation report for each review. DLA IR Offices shall develop reporting procedures and policies covering the form, content, distribution, and timeliness of reports. See Enclosure 9 for comprehensive discussion of IR Reporting.

ENCLOSURE 8  
INTERNAL REVIEW DOCUMENTATION

1. PURPOSE. This enclosure provides guidance for the preparation, review, retention, and safeguarding of IR documentation, including guidance on data integrity.

2. INTERNAL REVIEW DOCUMENTATION REQUIREMENT. IR evaluation documentation is the connecting link between fieldwork and the evaluation report. IR documentation serves as the systematic record of work performed and shall contain sufficient and appropriate supporting information to support the IR evaluator's findings, opinions, conclusions, judgments, and recommendations in the evaluation report, including information of supervisory review and documentation of adherence to DLA standards.

3. DATA INTEGRITY

a. Before Report Issuance. To ensure the integrity of IR data, the following processes and procedures must be completed by IR Offices before issuing a report:

(1) Document supporting information that supports the findings, conclusions, and recommendations.

(2) Supervisory review of the review plan, documented supporting information, report findings, and approval of recommendations and conclusions.

(3) Conduct quality procedures to ensure report accuracy and correctness.

b. After Report Issuance. To ensure integrity of IR report data, IR offices shall not make changes to supporting documentation after a report is issued.

4. RETAINING AND SAFEGUARDING INTERNAL REVIEW DOCUMENTATION

a. Specific DLA policies regarding records management and retention are addressed in DLAI 5304, (Reference 11).

b. IR documentation files shall be adequately safeguarded and prescribed security procedures shall be followed for classified and For Official Use Only material in accordance with DLA information security and records management requirements. Access to IR documentation files shall be restricted to authorized personnel. Special precautions shall be taken with IR documentation including report drafts that may contain proprietary data, personal privacy data, plans for future agency operations, congressional request material, and other classified or sensitive information. Sensitive working paper material shall be safeguarded when not in use to prevent leaks and unauthorized disclosure. Specific DLA policy regarding the protection of classified information, to include working papers, is addressed in DLAI 6304 (Reference 12).

c. Electronic IR documentation (working papers) shall be saved in the appropriate DLA review management tool (currently TeamMate), and shall be retained for the same period of time required for manually-prepared audit documentation and safeguarded through sound computer security practices.

d. IR Offices shall establish clearly defined policy and criteria to respond to requests for IR documentation made by outside parties. Outside parties may attempt to obtain indirectly through the IR evaluator information that they were unable to obtain directly from the evaluated entity. This could lead to premature and possibly unauthorized disclosure.

## ENCLOSURE 9 REPORTING STANDARDS

1. PURPOSE. This enclosure establishes reporting standards and provides guidance for reviews conducted in accordance with the standards in Reference 1. The reporting standards for IR relate to the form of reports, report contents, and report issuance and distribution.

2. INTERNAL REVIEW REPORTING. IR reports represent the culmination of an effective evaluation. IR evaluators must issue reports communicating the results of each completed review.

a. Evaluators shall use a form of the review report that is appropriate for its intended use, and is in writing or in some other retrievable form. Examples include formal written reports, memorandum, briefing slides, or other presentation materials. The IR evaluator may present reports using electronic media that are retrievable by report users and the IR organization. Users' needs will influence the form and content of IR reports.

b. The purposes of IR reports include:

(1) Communicating the results of reviews to DLA governance forums, the appropriate officials of the reviewed entity, and other appropriate oversight officials.

(2) Making the results clear and understandable.

(3) Making the results available to the public, as appropriate.

(4) Facilitating follow-up to determine whether appropriate corrective actions have been taken and were effective.

c. If a review is terminated before it is completed and a review report is not issued, evaluators shall document the reasons for termination, and communicate these reasons, in writing, to J5.

d. If an IR office discovers after a report is issued that it did not have sufficient, appropriate supporting information to support the reported findings or conclusions, the report shall be withdrawn. The Director of the applicable IR office shall communicate with the appropriate officials of the reviewed entity and J5 to inform them of the situation. The applicable IR office shall then work with its senior leadership to determine whether to conduct additional review work necessary to reissue the report with revised findings or conclusions.

3. INTERNAL REVIEW REPORT CONTENTS. IR evaluators shall prepare review reports that address the following:

a. The objectives, scope, and methodology of the review.

b. The review results, including findings, conclusions, and recommendations, as appropriate.



c. A summary of the views of responsible officials.

d. The nature of any confidential or sensitive information omitted, if applicable.

4. INTERNAL REVIEW REPORT OBJECTIVES, SCOPE, AND METHODOLOGY. IR reports shall include the following elements to explain how the review was executed:

a. Evaluators shall include a description of the review objectives, scope, and methodology used to conduct the review. This is to help the report user understand the purpose of the review, the nature and extent of the review work performed, the context and perspective regarding what is reported, and any significant limitations in review objectives, scope, or methodology.

b. Review objectives for IRs may vary widely. IR evaluators shall communicate review objectives in their IR reports in a clear, specific, neutral, and unbiased manner. Discussion shall include all relevant assumptions, including why the IR office undertook the assignment and the underlying purpose of the review.

c. IR evaluators shall describe the scope of the work performed and any limitations, including issues that would be relevant to likely report audiences, so that they can reasonably interpret the findings, conclusions, and recommendations in the report. IR evaluators shall also report any significant constraints imposed on the review approach by information limitations or scope impairments, to include denial of access to certain records or individuals.

d. In describing the work conducted, and to support the reported findings and conclusions, IR evaluators shall explain the relationship between the population and the data tested to include:

(1) Organizations, geographic locations, and the time period covered.

(2) Kinds and sources of supporting information.

(3) Significant limitations or uncertainties based on the IR evaluators' overall assessment of the sufficiency and appropriateness of the supporting information available for review.

e. In reporting review methodology, IR evaluators shall explain how the completed review work relates to the review objectives in sufficient detail to allow knowledgeable users of their reports to understand how the evaluators conducted the review and how they reached their conclusions. Evaluators shall identify significant assumptions made in conducting the review, describe techniques applied, describe applicable criteria, and when sampling is key to a review, describe the sample design and explain why the design was chosen, including whether results can be accurately projected.

5. INTERNAL REVIEW REPORT FINDINGS. IR evaluator findings are the most important element of an IR report. In the IR report, evaluators shall present sufficient, appropriate supporting information to support their findings and conclusions. Clearly developed findings

are vital to assist management and applicable oversight officials in understanding issues identified, and the need for taking corrective action.

a. In the IR report, evaluators shall fully develop the elements of a finding, and they shall provide recommendations for corrective action, if they are significant within the context of the review objectives. A finding or set of findings may be deemed complete only to the extent that the evaluators address the review objectives.

b. Evaluators shall describe limitations or uncertainties with the reliability or validity of supporting information in their reports.

c. IR evaluators shall put their findings in perspective by describing the nature and extent of the issues being reported, and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the findings, IR evaluators shall relate the instances identified to the population or the number of cases examined, and quantify the results in terms of dollar value, or other appropriate measure. If the results cannot be projected, IR evaluators shall limit their conclusions appropriately.

d. IR evaluators may provide selective background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Nonetheless, evaluators shall disclose significant facts relevant to the objectives of their work which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.

e. IR evaluators shall report significant deficiencies in internal control within the context of their review objectives.

6. ANNUAL SUMMARY OF INTERNAL REVIEW REPORTS. Each IR Office shall provide J5 with an end-of-year summary, enumerating each of the reviews it conducted during the previous fiscal year.

a. Within 30 days of the end of the fiscal year, each IR Office shall provide J5 with an Annual Summary Report, outlining the work accomplished relative to their approved review plan for the fiscal year just completed.

(1) The report shall include a listing of all reviews started during the previous year, all reviews completed during the previous year, and the current status of all reviews in progress. It shall also include a listing of any reviews terminated during the previous year.

(2) The report shall identify all corrective actions resulting from the reviews addressed above, and will include a listing of the parties to whom such corrective actions were assigned and the dates by which assigned actions are required to be completed.

(3) The report shall identify proposed actions to be taken by the IR Office to follow-up with assigned parties to ensure completion of corrective actions in accordance with approved milestones.

ENCLOSURE 10  
FOLLOW-UP

1. PURPOSE. This enclosure establishes procedures and responsibilities for managing the follow-up process within DLA for all corrective actions resulting from findings and recommendations resulting from DLA IR Office evaluations conducted in accordance with the standards in Reference 1.

2. INTERNAL REVIEW FOLLOW-UP. While IR reports represent the culmination of an effective evaluation, effective follow-up represents realization of benefits accruing from having conducted the evaluation at all.

a. The follow-up process provides an enterprise-wide management capability to monitor the implementation of corrective actions resulting from findings and recommendations from DLA OIG audits and attestations.

b. The follow-up process provides DLA Senior Leadership with assurance, through status updates, that agreed-upon corrective actions are being implemented and that identified deficiencies have been corrected. Delays in implementation of corrective actions increase the Agency's risk of mission failure, increased cost, ineffective controls, etc. IR evaluators shall elevate systemic failures to implement agreed upon corrective actions within their chain of command, as necessary.

c. Follow-up actions include conducting a follow-up evaluation, other follow-up actions, or no action. The extent of follow-up will be determined by the IR Office based on the complexity and criticality of the identified deficiencies and the proposed corrective actions. Some factors that will be considered in determining the magnitude of the follow-up effort are:

- (1) Impact on achieving an auditable financial statement.
- (2) Potential operational or monetary impacts.
- (3) Identified high risk areas.
- (4) Impact on internal controls.
- (5) Commander/Director interest.

d. DLA IR evaluators shall conduct follow-up evaluations in accordance with requirements identified in Reference 1.

e. DLA IR evaluators shall use the appropriate DLA tool (currently TeamCentral®) to track all findings and recommendations resulting from DLA IR final reports, except classified recommendations. Classified recommendations shall only be processed on information systems approved for the processing of classified information at the level of classification of the recommendation(s).

f. The DLA IR Offices shall review all data in the appropriate DLA tool (currently TeamCentral®) at least twice annually (March and September) to ensure the data is current, accurate, and complete. In addition, the IR Office shall issue semi-annual status updates to parties responsible for the corrective actions. The status updates shall identify the following:

- (1) Corrective action(s) reported as being implemented during the period.
- (2) Corrective action(s) verified by the DLA IR Office and closed.
- (3) Corrective action(s) on target with the established milestones.
- (4) Corrective action(s) not meeting the established milestones.

g. Resource requirements for follow-up will be included in the overall DLA IR Office annual review proposal, as referenced in Enclosure 4.

h. J5 shall periodically pull data from the appropriate DLA tool (currently TeamCentral®) to provide status/updates/metrics to the DLA senior leadership, to include briefing the Stewardship Committee on the status of corrective actions.