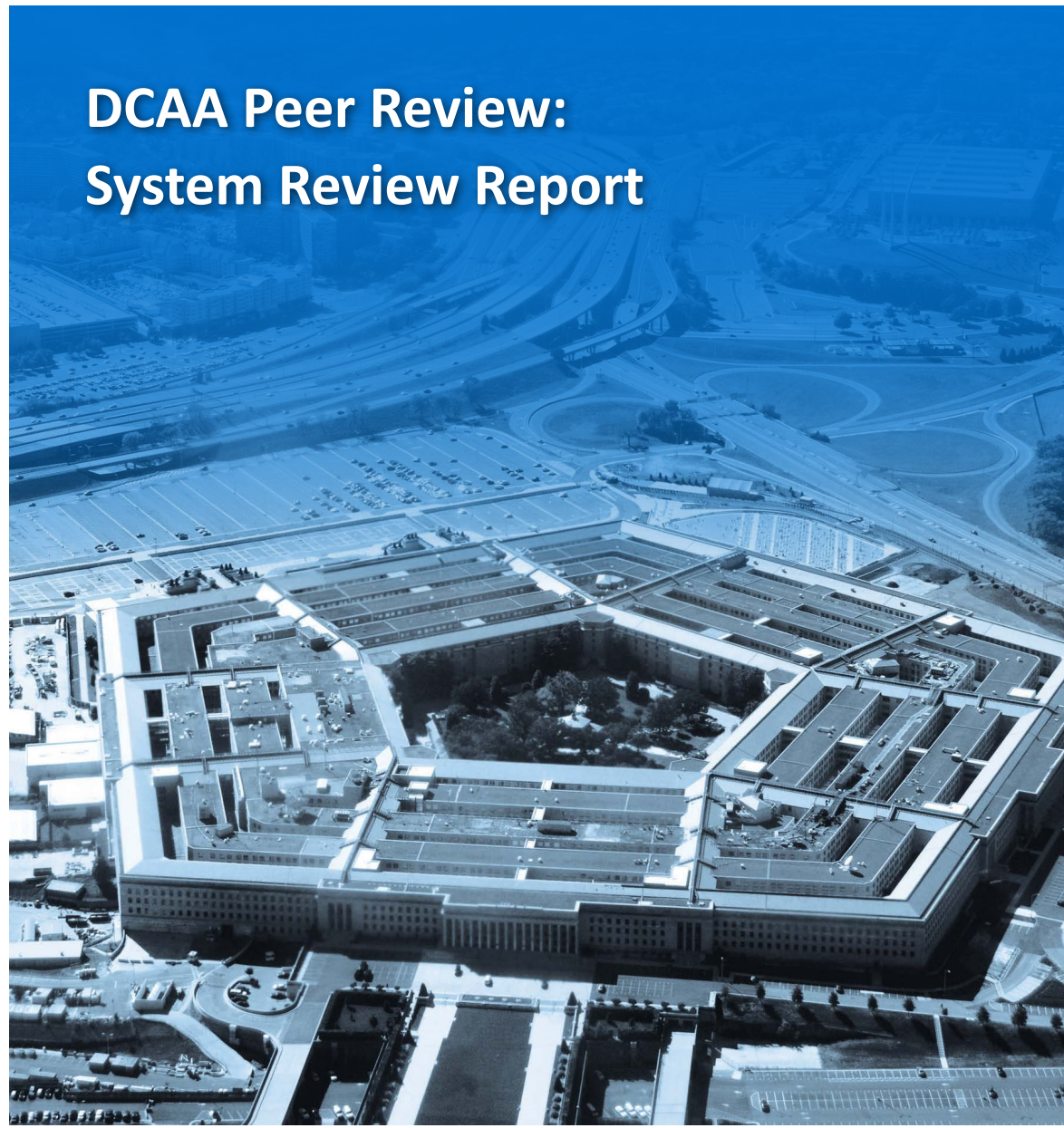




# INSPECTOR GENERAL

*U.S. Department of Defense*

AUGUST 21, 2014



## DCAA Peer Review: System Review Report

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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

August 21, 2014

Mr. Patrick Fitzgerald, Director  
Defense Contract Audit Agency  
8725 John J. Kingman Road  
Fort Belvoir, Virginia 22060

Subject: System Review Report and Letter of Comment on the Defense Contract Audit Agency

Dear Mr. Fitzgerald:

Attached is the final System Review Report of the Defense Contract Audit Agency conducted in accordance with Government Auditing Standards and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included as Enclosure 2 with excerpts and our position incorporated into the relevant sections of the report.

We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review.

A handwritten signature in black ink that reads "Jon T. Rymer". The signature is written in a cursive style.

Jon T. Rymer

Attachment





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

August 21, 2014

To Mr. Patrick Fitzgerald, Director  
Defense Contract Audit Agency

Subject: System Review Report

We have reviewed the system of quality control for the Defense Contract Audit Agency (DCAA) in effect from January 1, 2013, through June 30, 2013. DCAA's last peer review included its system of quality control for the fiscal year ending September 30, 2006. The last peer review opinion was a pass. Government Auditing Standards require a peer review every 3 years. However, in September 2009, the Government Accountability Office (GAO) issued the report, "DCAA AUDITS: Widespread Problems with Audit Quality Require Significant Reform," which identified audit quality weaknesses such as the compromise of auditor independence, insufficient audit testing, and inadequate planning and supervision. To address the recommendations in the 2006 peer review report and GAO report, DCAA made substantial changes. These included increasing its internal review structure, providing staff training, and reviewing and revising its audit policy where needed. In addition, DCAA restructured the way it accepted audits and changed its overall audit strategy to focus on high-risk and high-dollar areas.

Because of the number and types of DCAA engagements and the significant number of audit reports it produces, our review<sup>1</sup> covered a 6-month period. We believe the volume of audits at DCAA creates a reasonable sample in a shorter time, instead of the usual 1-year period. A system of quality control encompasses DCAA's organizational structure and the policies and procedures established to provide it with reasonable assurance of conforming with Government Auditing Standards. The elements of quality control are described in Government Auditing Standards. DCAA is responsible for designing a system of quality control and complying with it to provide DCAA with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and DCAA's compliance therewith based on our review.

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<sup>1</sup> The DCAA reports reviewed by the peer review team included engagements performed under the 2007 Generally Accepted Government Auditing Standards (GAGAS) and 2011 revision.

Our review was conducted in accordance with Government Auditing Standards and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).<sup>2</sup> During our review, we interviewed DCAA personnel and obtained an understanding of the DCAA audit organization and the design of the DCAA's system of quality control. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the DCAA's system of quality control. The engagements<sup>3</sup> selected represented a reasonable cross-section of the DCAA's audit organization. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with DCAA management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

We obtained an understanding of DCAA's system of quality control and tested compliance with DCAA's quality control policies and procedures to the extent we considered appropriate. We applied these tests on the selected engagements. Because our review was based on selected compliance tests, 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 the degree of compliance with the policies or procedures may deteriorate.

In our opinion, except for the deficiency described below, DCAA's system of quality control in effect as of June 30, 2013, has been in compliance and suitably designed to provide DCAA with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. DCAA has received a peer review rating of *pass with deficiency*. As is customary, we have issued a letter dated August 21, 2014 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

Enclosure 1 to this report identifies the DCAA offices that we visited and the engagements that we reviewed.

We noted the following deficiency during our review.

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<sup>2</sup> The CIGIE *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (Guide), March 2009, with its November 2012 addendum.

<sup>3</sup> Engagements include attestation engagements and performance audits; however, the majority of our sample included attestation engagements.

Deficiency – We identified errors or a lack of sufficient documentation in 11 of the 92 engagements examined that limited the reliability of the reports. These reports were issued by five of the six DCAA regions reviewed. Specifically, the DCAA engagement documentation did not contain sufficient information to allow the peer review auditor to understand the judgments and conclusions drawn by the DCAA auditor based on the evidence in the work papers.

We identified 3 additional reports (for a total of 14 reports with errors from the 92 engagements) for which the engagement documentation did not support information in the report. However, the reliability of these three reports was not affected by the errors because DCAA adequately resolved our concerns about the sufficiency of evidence during interviews and provided additional information outside the engagement documentation.

The DCAA quality control policies and procedures implement the GAGAS requirements<sup>4</sup> for sufficiency of evidence and are generally adequate guidance. Specifically, DCAA's Contract Audit Manual (CAM) 2-302.3, "Evidence," states, "The auditor must obtain sufficient evidence to provide a reasonable basis for the conclusion expressed in the report. This requires that sufficient procedures be performed to test the contractor's assertion to provide reasonable assurance that unallowable costs and other noncompliance's with applicable Government laws and regulations are identified." Additionally, CAM 2-307, "Working papers/Documentation," restates the GAGAS attestation documentation requirements and provides examples showing how documentation provides the principle support for many items, including the auditors' conclusion, the objectives, scope and methodology, and the work performed to support significant judgments and conclusions. CAM 4-403, e(4)f, also states that audit working papers are generated during the fieldwork portion of the audit to document significant conclusions and judgments of the auditor. They should contain descriptions of the transactions and records examined, and the objectives, scope, and methodology (audit procedures) used to develop the conclusions. CAM 4-403, j(3) further requires auditors to reference all significant judgments, findings, conclusions, and recommendations in the draft report. This includes: summary results and notes to the summary and lead working papers; the report scope section on how the contractor's internal control systems affected the scope of audit; and all report qualifications.

DCAA also provided a memorandum it issued on August 22, 2013, before the peer review testing began, which clarifies for DCAA auditors the importance of documenting significant judgments. Based on DCAA's internal quality findings, as well as the preliminary conclusions

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<sup>4</sup> Paragraph 5.16a of 2011 GAGAS is the requirement for documentation and sufficiency of evidence. We are only referencing 2011 GAGAS requirements because it is the current standard.

found in the peer review, DCAA drafted and issued several revisions to policies and procedures to help ensure compliance with applicable standards. However, because the memorandums were issued after the peer review period, we cannot comment on the effectiveness of these memorandums in reinforcing the GAGAS standards.

For the 11 engagements that lacked sufficient documentation, the DCAA auditors did not fully follow CAM guidance. The audit teams most frequently cited the following as the causes of the noncompliance: inadequate time to perform quality reviews; a belief that the significance of the engagement did not warrant the testing; a belief that less documentation or less attention to detail was required, because the auditors were familiar with the contract area; simple auditor error; and the auditors' belief that they had adequate documentation for their conclusions and methodology. We concluded that the DCAA policy itself is accurate and clear and did not contribute to noncompliance.

However, problems remain because (1) sufficiency of evidence and documentation of conclusions are so integral to a GAGAS engagement and have an impact on the reliability of the report, and (2) this noncompliance was identified in the 2009 GAO report, and DCAA quality reviews also continue to identify this as well as the 2013 peer review findings. We attributed these errors to the absence of effective control measures in DCAA's policies and procedures designed to ensure compliance with GAGAS. Although DCAA continued to make policy improvements after the peer review, DCAA still needs to increase quality control policies and procedures to ensure compliance with these requirements. Specifically, although DCAA implemented a number of independent internal review procedures to provide additional assurance for sufficiency of evidence, it limited the number of engagements requiring review based on risk to the Department. For the 11 engagements that lacked sufficient evidence, DCAA did not conduct the independent reference review on any of the engagements. Five engagements did not include adequately cross-referenced draft reports as required by DCAA policy. Therefore, until DCAA has reasonable assurance of complying with the evidence standards, DCAA should consider additional steps to ensure quality before it issues the report. For example, improvements could include performing an independent review of all engagements, requiring supervisors to complete and certify a checklist that demonstrates they have reviewed the project to ensure significant GAGAS requirements have been completed, and performing random quality reviews of engagements nearing completion. The peer review results show that DCAA needs to take additional steps because the current policy and training efforts do not appear to be enough to achieve a reasonable level of compliance.



The GAGAS noncompliance identified in the 11 engagements, including the specific incidents of engagement noncompliance, and the resulting impact on the reliability of the 11 reports, is summarized below:<sup>5</sup>

- Engagement 1 (January 17, 2013). The engagement documentation did not include adequate documentation of the engagement scope and methodology nor adequate supporting documents in the engagement files. Specifically, DCAA did not document their rationale for sampling only 13 of over 1,500 transactions, totaling 5 percent of the six account balances, from accounts the DCAA audit team identified as high risk or potential audit leads. Furthermore, DCAA did not document how testing only 13 transactions would provide sufficient evidence to conclude that the data used to determine the fringe and general and administrative accounts did not contain unallowable expenses. As a result, there was not sufficient evidence to support the report conclusions that the \$2.3 million of fringe and general and administrative rates of a proposal were a fair and reasonable price. The lack of documentation to show sufficient testing impaired the reliability of the report.
- Engagement 2 (January 23, 2013). Statements of fact in the report conflict with the engagement documentation. Specifically, the engagement report stated, “30.4 to 46.9 percent of 522 products in our sample had catalog pricing errors.” However, the engagement documentation (and the body of the report) stated that the range was actually 13.4 to 27.4 percent. The DCAA audit team stated that the lower numbers were a result of the contractor’s ability to satisfactorily resolve several sample items, but DCAA did not update the report percentages. The DCAA audit team did not adequately document the procedures well enough for an experienced auditor to understand the evidence and significant conclusions in relation to significant methodology. The number of errors in the report that were over 50 percent more than the engagement documentation supported impaired the reliability of the report.
- Engagement 3 (June 28, 2013). The engagement documentation did not contain sufficient information to understand the significant judgments supporting the engagement opinion. The engagement report opinions stated that the contractor’s proposed indirect rates are not acceptable as proposed, and the contractor-claimed direct costs are acceptable as adjusted by their examination. However, the engagement documentation does not clearly identify how those engagement opinions

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<sup>5</sup> We did not include engagement titles or numbers for the DCAA engagements because they are not available to the public due to the sensitivity of contractor data.

were reached. In addition, there was not sufficient supporting documentation to show how the auditors determined that costs were not allowable, which was the objective of the attestation. The report concluded that there was inadequate support because records were destroyed from FY 2003 through FY 2005. Because of the lack of records, a DCAA technical specialist recommended that the audit team issue a disclaimer of opinion. Despite the recommendation and destroyed records, the engagement documentation did not include how the DCAA audit team determined an opinion was appropriate. Finally, the engagement documentation did not contain adequate evidence to support the DCAA audit team's significant conclusion for \$16,876 of unsupported In-House Commission costs. The lack of documentation to support the overall conclusion impaired the reliability of the report.

- Engagement 4 (February 8, 2013). The majority of the engagement documentation did not contain sufficient information to allow an experienced auditor to understand the work performed and conclusions reached. After discussions and walkthroughs with the DCAA audit team, the peer reviewer was able to reach the majority of the conclusions in the engagement documentation. However, there were some areas whose engagement documentation the DCAA audit team could not adequately explain. Specifically, the engagement documentation showed that the contractor could not provide 2010 financial data because the company instituted a new system. However, this engagement documentation appears to conflict with a report statement that the contractor "does not use a job cost accounting system," as opposed to the records just not being available. In addition, the report included a GAGAS scope qualification related to missing documentation or the inability to perform adequate audit procedures without sufficient evidence to determine how those qualifications impacted the opinion. After discussions with the DCAA audit team members, they remained unable to adequately explain how they determined their opinion that the contractor was in compliance with the agreements based on the scope qualifications. The lack of engagement documentation supporting the team's overall conclusion, when there were scope limitations, impaired the reliability of the report.
- Engagement 5 (June 27, 2013). There were not adequate supporting criteria or engagement documentation to support this report. Specifically, the DCAA audit team cited approximately \$447,000 in salary expenses as unreasonable because they did not believe the contractor employees worked the hours listed on their timesheets. The DCAA audit team documented why they concluded the hours reported were not reasonable. However, they did not document their decision on why anything over a 40-hour work week was unreasonable, and therefore not

allowable. The documentation did not consider the contractor's comments that the original proposal had anticipated subcontract work that was ultimately performed by the prime contractor, which resulted in many more hours being worked. Because the 40-hour work week was used to calculate the dollar value that the DCAA audit team determined was unreasonable, this dollar value was not supported by sufficient evidence. The lack of documentation to support the dollar values of the findings impaired the reliability of the report.

- Engagement 6 (May 7, 2013). The project documentation did not contain sufficient information to enable an experienced auditor with no previous connection to the engagement to understand the nature of the procedures performed or the auditors' significant judgments and conclusions. Specifically, for a significant portion of the testing in the engagement documentation, there was no methodology for an experienced auditor to understand the testing performed. The DCAA audit team members stated they had performed these tests for this contractor for several years and therefore did not document their methodology as they should have. The DCAA audit team also did not adequately document their reconciliation of computer-processed data in its engagement documentation analysis. The DCAA audit team was not able to provide us additional information during our review to determine if the audit team gathered appropriate sufficient evidence to support four of the five findings in the report. The lack of documentation impaired the reliability of this report.
- Engagement 7 (May 22, 2013). The engagement documentation did not contain sufficient information to support significant judgments and conclusions in the report. For example, the report stated that the quarterly limitation on payments was accurate and supported. However, this conclusion was not stated in the engagement documentation and the evidence showed errors in the quarterly limitation on payments. In addition, some conclusions in the engagement documentation lacked sufficient evidence. For example, the detailed analysis showed that there were errors of 15 percent, but the conclusion stated that "some parts of the document might be able to be relied on" without stating which parts of the document or how the auditors came to that conclusion. Furthermore, DCAA auditors did not assess or test computer-processed data to source documentation adequately. Instead, DCAA auditors relied on the contractor-provided, computer-processed data and concluded it was acceptable without determining its reliability. For example, the auditors compared two forms of computer-processed data (SF 1443 and the Contract Performance Report) without assessing the reliability of either forms of data. The DCAA audit team maintained that the data from the SF 1443 was not computer-processed data. The missing documentation impaired the reliability of the report.

- Engagement 8 (March 1, 2013). DCAA auditors did not verify computer-processed data to source documentation or document why they could rely on the computer-processed data without testing it against source documentation. Instead, they compared two forms of computer-processed data in several different instances. Specifically, DCAA auditors reconciled the contractor's proposed labor-rate data to the labor journal report, the historical direct labor base data from the contractor's rate calculation worksheets to the general ledger, and the proposed labor-hour data to the contractor's historical labor rate data without testing to source documentation. In addition, DCAA auditors relied on work from a prior audit that used a similar and inadequate testing method. The DCAA Quality Directorate performed a review of this engagement and also reported inadequate testing methods and requested that the DCAA audit team provide additional testing to support its opinion. Although we did not verify the testing performed after the DCAA Quality report was issued, the DCAA audit team members stated they did perform detailed testing. However, the engagement documentation did not provide sufficient evidence to support the report findings. The lack of sufficient testing and documentation impaired the reliability of the report.
- Engagement 9 (February 19, 2013). The majority of the engagement documentation did not contain sufficient information to enable an experienced auditor to understand the DCAA audit team's significant conclusions. Specifically, the audit team concluded that the amounts a nonprofit foreign entity charged under the grant were allowable and allocable without documenting sufficient evidence to support that conclusion. Instead, the DCAA audit team performed alternate procedures to simply test the reasonableness of labor hours charged, which still was not adequate. DCAA based its reasoning on the "copious" amounts of documentation the contractor prepared and evaluated before a biweekly meeting as justification for the contractor's labor hours charged. However, the DCAA audit team's conclusion of this engagement documentation does not state what work was performed for the auditor to determine that the costs were allowable and allocable. Moreover, the scope section of this engagement documentation describes the steps that the DCAA audit team was going to take, but the conclusion of this analysis does not describe what DCAA did or how they concluded the costs were allowable and allocable. The DCAA auditors insufficient testing to provide reasonable assurance of their overall conclusion impaired the reliability of the report.
- Engagement 10 (May 8, 2013). The DCAA audit team did not describe the work it performed (scope and methodology) and, therefore, the engagement documentation did not have sufficient information to enable an experienced auditor to

understand the DCAA audit team's significant conclusions. Specifically, the engagement documentation supporting the majority of the report did not include an adequate methodology and the DCAA audit team could not provide an adequate explanation to clearly show that the report conclusions were accurate. In addition, although the peer review auditor was ultimately able to find some of the source documentation, the engagement documentation did not have adequate references to enable an experienced auditor to follow them. In addition, DCAA did not adequately assess computer-processed data. Specifically, the engagement documentation stated that computer-processed data would be used although there was not an assessment of computer-processed data in the engagement documentation. The DCAA audit team later stated that the computer-processed data was not relevant to the engagement. The lack of documentation to clearly support the conclusions reached impaired the reliability of the report.

- Engagement 11 (January 22, 2013). The engagement documentation did not contain sufficient information to enable an experienced auditor to understand the significant conclusions in the report. The DCAA audit team stated that the proposal was fairly stated and also incorporated the results of a technical evaluation that questioned a significant number of labor hours. The engagement documentation did not contain analysis showing the DCAA audit team's assessment of whether the information from the technical evaluator was sufficient, timely, or accurate. Additionally, there was no analysis of how the technical evaluation affected the DCAA audit team's overall report opinion. Furthermore, the DCAA audit team's engagement documentation did not include an assessment of the impact the questioned labor hours had on the overall report conclusion. The lack of documentation to show how the DCAA audit team reached its significant conclusions impaired the reliability of the report.

Recommendation – DCAA should consider additional steps to ensure quality before the report is issued, such as requiring an independent reference review for more engagements, requiring supervisors to complete and certify a checklist that demonstrates they have reviewed the project to ensure significant GAGAS requirements have been completed, and establishing a program to perform random inspections of the underlying documentation for its engagement reports.

Views of Responsible Official. Agree. The Director of DCAA stated that although DCAA has made improvements, there is still work to do to ensure that changes are universally understood and properly implemented. The Director further stated that DCAA has already

implemented several actions to address the recommendation. Specifically, DCAA issued additional guidance on documenting significant judgments, disclaiming an opinion, independent reference reviews, and the audit review process; and it revised its planning and performance system to require a Statement of Sufficiency of Evidence and the Basis of the Audit Opinion. In addition, DCAA is considering further processes, training, and other actions to address the deficiency and ensure quality. DCAA will evaluate those actions by January 31, 2015.

Enclosure 2 to this report includes the response by DCAA to the above deficiency.

A handwritten signature in black ink, appearing to read "Jon T. Rymer". The signature is fluid and cursive, with the first name "Jon" and last name "Rymer" clearly distinguishable.

Jon T. Rymer

Enclosures

# Enclosure 1

## Scope and Methodology

We tested compliance with DCAA's system of quality control to the extent we considered appropriate. These tests included a review of 92 of 3,221 audit or attestation reports issued from January 1, 2013, through June 30, 2013. Depending on the type of engagement and the time the engagement began, either the 2007 or 2011 GAGAS applied. We used both the 2007 and 2011 GAGAS standards in our review, as applicable. In addition we tested GAGAS and DCAA policy compliance for canceled audits, non-audit services and continuing professional education hours. We also reviewed the internal quality control reviews DCAA performed. In addition, we interviewed personnel to determine their understanding of and compliance with quality control policies and procedures.

We also reviewed DCAA's monitoring of engagements performed by IPAs where the IPA served as the principal auditor from January 1, 2013, through December 31, 2013. During the period, DCAA contracted for the audit of its agency's fiscal year 2013 financial statements.

We visited at least one branch office for each of the six DCAA regions. For the branch offices visited, see Figure 1 below. In addition, we discussed our reviews with each of the teams responsible for each of the engagements reviewed.

*Figure 1. Reviewed Engagements Performed by DCAA*

Report Number	Region	Branch Office Name	Type of Engagement
2004C10100003	1	Nashville Branch	Incurring Cost
2013D11090001	1	Nashville Branch	Deficiency Report
2012E23000001	1	Nashville Branch	Forward Pricing Rate
2013B27000001	1	Nashville Branch	Part of a Proposal
2006A10100078	1	Greensboro Branch	Incurring Cost
2006H10100019	1	Greensboro Branch	Incurring Cost
2010J17740007	1	Greensboro Branch	Preaward Accounting Survey
2005H10100007	1	Charlotte Branch	Incurring Cost
2006P10100011	1	Orlando Branch	Incurring Cost
2012G23000001*	1	Tampa Bay Branch	Forward Pricing
2013Z17740004*	1	Tampa Bay Branch	Preaward Accounting Survey
2010N19100005*	1	Space Coast Branch	Disclosure Statement
2012J11090003*	1	Space Coast Branch	Business System Deficiency Report

Report Number	Region	Branch Office Name	Type of Engagement
2013B21000005*	1	Lockheed Martin Orlando Resident Office	Individual Price Proposal
2013L17740001*	2	Boston Branch	Preaward Accounting Survey
2011G10601001*	2	Northern New England Branch	Operations Audit Follow Up
2012V17900002*	2	Boston Branch	Special Audit
2012F17900001	2	Iraq Branch	Special Audit
2011Q13500001	2	European Branch	Labor Floor Check
2013I17740001	2	European Branch	Preaward Accounting Survey
2013A21000001	2	Raytheon SAS Resident Office	Firm Fixed Priced Proposal
2013D27000001	2	Raytheon SAS Resident Office	Proposal Audit
2013D17500001	2	Raytheon SAS Resident Office	Progress Payment Review
2013C21000002*	2	Bay States Branch	Individual Price Proposal
2012G19100002*	2	Raytheon Integrated Defense Systems Resident Office	Disclosure Statement
2012S10160001*	2	Boston Branch	Incurred Cost (Individual Packages)
2003P10100007*	2	Northern New England	Incurred Cost
2008V10100004*	2	Northern New England	Incurred Cost
2013L23000001*	2	Northern New England	Forward Pricing Rate
2007A10100005*	3	Rock Mountain Branch	Incurred Cost
2012U21000007*	3	Rock Mountain Branch	Individual Price Proposal
2005D10100002*	3	DynCorp International Resident Office	Incurred Cost
2011C17900003	3	Dallas Branch	Special Audit
2013L19100002*	3	Richardson Branch	Disclosure Statement
2013H27000003*	3	Richardson Branch	Audit of Part of a Proposal
2012E17500001*	3	Richardson Branch	Progress Payments
2012A11070801*	3	Lockheed Martin Ft. Worth Resident Office	Accounting System
2013A11090801*	3	Lockheed Martin Ft. Worth, Resident Office	Business System Deficiency Report
2013A15600002*	3	Lockheed Martin Ft. Worth. Resident Office	Limitation of Payments
2006B10100464*	3	Denver Branch	Incurred Cost
2007J10100015*	3	Denver Branch	Incurred Cost
2007A10100007*	3	Denver Branch	Incurred Cost
2007S10100015*	3	Rocky Mountain Branch	Incurred Cost
2006M10100001*	3	Rocky Mountain Branch	Incurred Cost
2011G10100027	3	St. Louis Branch	Incurred Cost
2013D17500009	3	St. Louis Branch	Progress Payments



Report Number	Region	Branch Office Name	Type of Engagement
2013J23000004	3	Boeing St. Louis Branch	Forward Pricing Rate
2013C21000002	3	Boeing St. Louis Branch	Individual Price Proposal
2013C27000801	3	Boeing St. Louis Branch	Audit of Part of a Proposal
2009S10100040*	4	LA/OC South IC Branch	Incurred Cost
2012B21000004*	4	Santa Ana Branch	Individual Price Proposal
2012C17900001*	4	Santa Ana Branch	Special Audit
2013C17740001*	4	Santa Ana Branch	Preaward Accounting Survey
2012K17900002*	4	Santa Ana Branch	Special Audit
2013C17741003*	4	Santa Ana Branch	Non-major Accounting System
2011K17741002*	4	Santa Ana Branch	Non-major Accounting System
2009D10100609*	4	San Diego Branch	Incurred Cost
2006D10100439*	4	San Diego Branch	Incurred Cost
2013H27000004*	4	San Diego Branch	Audit of Part of a Proposal
2012K17741002*	4	San Diego Branch	Non-major Accounting System
2006P10100027	4	San Fernando Valley Branch	Incurred Cost
2013V28000001	4	Mountain View Branch	Agreed-Upon Procedures
2012S13500001*	4	Miramar Branch	Floor Check
2013R27000005	4	Boeing Mesa Branch	Audit of Part of a Proposal
2004D10100027 and 2005D10100028*	4	San Diego Branch	Incurred Cost
2013H2700004	4	Fremont Branch	Audit of Part of a Proposal
2006D10100043	6	Springfield Branch	Incurred Cost
2013L17740001	6	Springfield Branch	Preaward Accounting Survey
2013T21000001	6	Pittsburgh Branch	Individual Price Proposal
2008D10100001	6	General Dynamics Corp. Resident Office	Incurred Cost
2006V10100013	6	Mt. Vernon Branch	Incurred Cost
2013D17741001	6	Mt. Vernon Branch	Non-major Accounting System
2013P17740006	6	Mt. Vernon Branch	Preaward Accounting Survey
2013C21000002	6	Lockheed Mt. Laurel Resident Office	Individual Price Proposal
2011C13500003	6	Pennsylvania Branch	Labor Floor Check
2013K17741003	6	Pennsylvania Branch	Non-major Accounting System
2004F10100040	6	Central Maryland Branch	Incurred Cost
2013Z10501001	6	Fort Belvoir	Management Systems
2013D17740001	6	Central Maryland Branch	Preaward Accounting Survey

Report Number	Region	Branch Office Name	Type of Engagement
2005D10100001*	6	Lockheed Martin Rockville Branch	Incurring Cost
2012D19100003	6	Lockheed Martin Rockville Branch	Disclosure Statement
2010B23300002	6	Lockheed Martin Rockville Branch	Restructuring Rate Proposal
2012B17900004	6	Lockheed Martin Rockville Branch	Special Audit
2011C17740001	6	Columbia Branch	Preaward Accounting Survey
2006H10100009	9	Valley Forge Branch	Incurring Cost
2006E10100001	9	Shenandoah Branch	Incurring Cost
2013A17100001	9	Bull Run Branch	Terminations
2011D11070003*	9	Dulles Branch	Accounting System Audit
2012K19100002	9	North Central Branch	Non-major Accounting System
2011E17741001	9	Great Western Branch	Non-major Accounting System
2012P21000015*	9	Golden State Branch	Individual Price Proposals
2013T27000002	9	Longhorn Branch	Audit of a Part of a Proposal

\* A site visit was conducted for these report numbers.

## Enclosure 2

### DCAA Comments



IN REPLY REFER TO

Q 225.4

July 29, 2014

**DEFENSE CONTRACT AUDIT AGENCY**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR ACQUISITION,  
PARTS, AND INVENTORY, OFFICE OF THE INSPECTOR  
GENERAL, DEFENSE OF DEPARTMENT

SUBJECT: Response to Department of Defense Office of Inspector General, Draft System  
Review Report for the DoDIG Peer Review of DCAA (Project No. D2013-D000FT-  
0184.000)

We want to thank you for the opportunity to respond to the draft Peer Review report dated July 2, 2014. The deficiency identified in the system review report is important and highlights an area where we will continue to focus efforts to improve.

In 2009, the GAO and DoDIG raised serious concerns about DCAA's audit quality, and the DoDIG determined that effective August 26, 2009, its adequate opinion would no longer apply to the DCAA system of quality control. Since then, we have made significant changes to improve quality and overcome those concerns. These changes included key actions such as creating new quality controls, conducting extensive training, and making organizational adjustments. Importantly, we elevated the quality assurance function from a regional level to the Agency level, and we appointed a Senior Executive Service (SES) executive to lead the Directorate and report directly to the Director. We have also created Field Office Assistants for Quality (FAQs)—a field office position dedicated to quality to provide more timely and effective training.

We are pleased that the Peer Review results showed that these changes have corrected many of the concerns identified in 2009. However, we know that we still have work to do to ensure that the numerous changes are universally understood and properly implemented. It is important to recognize that we have added over 800 new employees over the past five years to meet the demand of increased workload, which has also contributed to a rise in the number of new supervisors and managers. In addition, many of the changes we have implemented include new policies and procedures that impact our entire audit staff, both newer and more experienced auditors. These staff and policy changes provide enormous potential for increased productivity and effectiveness, but they have also created a heightened and urgent need for training across the agency. We have taken this need very seriously and have addressed it in numerous ways. For example, our Policy group meets quarterly with all FAQs to train them on new policies so they can train auditors in the field on the most up-to-date guidance. We have also established leadership conferences to address the unique needs of supervisors and managers, support their development as leaders, and ensure a consistent message throughout the agency. At our training institute, we hired a new Chief Learning Officer who is leading the effort to review and revise

## DCAA Comments (cont'd)

July 29, 2014

SUBJECT: Response to Department of Defense Office of Inspector General, Draft System Review Report for the DoDIG Peer Review of DCAA (Project No. D2013-D000FT-0184.000)

our training curriculum, where necessary, to deliver the most effective training courses for all of our auditors. Finally, we have revamped how we write guidance to make it more understandable and reader-centered to ensure the most effective comprehension of new policies and procedures.

These changes in training have received excellent reviews from the field, and we see steady progress as we continue to implement and refine our methods. While we still have work to do, we have every reason to believe that as we continue to institutionalize these changes, our compliance with new guidance and procedures will continue to improve.

This Peer Review has been extremely helpful in providing solid data to assess our efforts and improvements since 2009. Below, we speak directly to the recommendations made by the Peer Review team. Overall, however, we welcome their help and the opportunity to continue to improve our operations and better serve the taxpayer and the warfighter.

**DoDIG Recommendation 1:** DCAA should consider additional steps to ensure quality before the report is issued, such as requiring an independent reference review for more engagements, requiring supervisors to complete and certify a checklist that demonstrates they have reviewed the project to ensure significant GAGAS requirements have been completed, and establishing a program to perform random inspections of the underlying documentation for its engagement reports.

**DCAA Response:** **Concur.** DCAA has already implemented the following steps addressing your recommendation to ensure high quality reports are issued.

### **Actions already taken**

- August 22, 2013 – 13-PAS-017(R) Audit Guidance on Documenting Significant Judgments Relevant to the Audit Report Opinion.
- August 22, 2013 – 13-PAS-018(R) Audit Guidance on Disclaiming an Opinion.
  - The FY 2013 FAQ training focused on the implementation of these two guidance memos.
- December 5, 2013 – 13-PPS-025(R) Audit Alert on Updated DCAA Instruction No. 7642.1, Independent Reference Review Policies and Procedures.
  - Added additional reports to the assignments requiring IRR based on risk (e.g., claims and terminations).
  - Updated the checklist questions to align with the intent of IRRs, and provided more consistent guidelines (e.g., clarified assignments required to undergo an IRR subsequent to the final level of management review) to ensure compliance with the IRR policy.

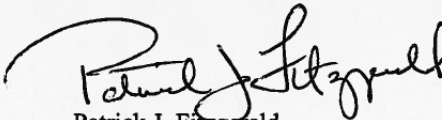
## DCAA Comments (cont'd)

July 29, 2014

SUBJECT: Response to Department of Defense Office of Inspector General, Draft System Review Report for the DoDIG Peer Review of DCAA (Project No. D2013-D000FT-0184.000)

- November 22, 2013 – 13-PPS-024(R) Audit Alert on Updating and Clarifying the Agency Audit Review Process.
  - This guidance reemphasizes the management team's responsibility to ensure that the audit meets quality standards before the audit is issued, and it requires that supervisors certify to meeting quality standards on each audit report.
- June 30, 2014 – Revised the Audit Planning and Performance System to require the audit team to include a Statement on Sufficiency of Evidence and the Basis of the Audit Opinion on summary working paper A.
  - This guidance places a renewed emphasis on carefully assessing the completed audit to identify any noncompliances or scope limitations, as well as to ensure that appropriate evidence exists to support the audit opinion to be expressed. Additionally, it reemphasizes that the audit team should clearly articulate their professional judgment and how they arrived at their conclusions.

In addition to what we have implemented, our Agency Executives are considering further processes, training, and other actions to address the three areas you note above and to ensure quality across the agency. By January 31, 2015, we will evaluate these additional actions and processes to strengthen our audit quality. As a result of these actions and ongoing assessments of our efficiency and effectiveness, we believe the quality and usefulness of our reports and reviews will continue to improve.



Patrick J. Fitzgerald  
Director



# **Whistleblower Protection**

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

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