



Peer Review of the Defense Contract Audit Agency (DCAA) for Fiscal Year 2021

System Peer Review Report

Contract No: GS-00F-047CA
Task Order: SP4704-22-F-0011

Submitted to:

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Submitted by:

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July 18, 2022

Joseph P. Bentz, Acting Director
Defense Contract Audit Agency
8725 John J. Kingman Road
Fort Belvoir, Virginia 22060

Subject: System Peer Review Report on the Defense Contract Audit Agency Audit Organization

Dear Mr. Bentz:

Attached is the System Peer Review Report of the Defense Contract Audit Agency (DCAA) audit organization conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency *Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General*. Your response to the report is included in its entirety in Enclosure III of the report.

We appreciate the cooperation and courtesies extended to our staff during the review.

McCoy Williams, CPA
President/CEO
Acuity Consulting, Inc.

Enclosures-3



**SYSTEM REVIEW REPORT
OF THE DEFENSE CONTRACT AUDIT AGENCY (DCAA)
FOR THE PERIOD OCTOBER 1, 2020 THROUGH SEPTEMBER 30, 2021**

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System Review Report

July 18, 2022

Joseph P. Bentz, Acting Director
Defense Contract Audit Agency
8725 John J. Kingman Road
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Dear Mr. Bentz:

We have reviewed the system of quality control for the Defense Contract Audit Agency (DCAA) in effect for the year ended September 30, 2021. A system of quality control encompasses DCAA's organizational structure, and the policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with *Government Auditing Standards*¹, commonly referred to as generally accepted government auditing standards (GAGAS), and applicable legal and regulatory requirements. The elements of quality control are described in Government Auditing Standards.

In our opinion, the system of quality control for the audit organization of DCAA in effect for the year ended September 30, 2021, has been suitably designed and complied with to provide DCAA with reasonable assurance of performing and reporting in conformity with applicable professional standards and applicable legal and regulatory requirements in all material respects.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. DCAA has received an External Peer Review rating of *pass*.

Monitoring of GAGAS Engagements Performed by Independent Public Accountants

¹ The Government Auditing Standards are issued by the Comptroller General of the United States. The 2018 Revision, issued in July 2018, and Technical Update April 2021, was in effect during the period covered by this peer review.



In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the Council of Inspectors General on Integrity and Efficiency (CIGIE) related to DCAA's monitoring of engagements conducted in accordance with generally accepted government auditing standards (GAGAS engagements) by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of GAGAS engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether DCAA had controls to ensure IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion; accordingly, we do not express an opinion on DCAA's monitoring of work performed by IPAs.

Basis of Opinion

Our review was conducted in accordance with Government Auditing Standards and the CIGIE *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*².

During our review, we interviewed DCAA personnel and obtained an understanding of the nature of the DCAA audit organization, and the design of DCAA's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected GAGAS engagements and administrative files to test for conformity with professional standards and compliance with DCAA's system of quality control. The GAGAS engagements selected represented a reasonable cross-section of DCAA's audit organization, with emphasis on higher-risk audits.

In performing our review, we obtained an understanding of the system of quality control for the DCAA audit organization. In addition, we tested compliance with DCAA's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of DCAA's policies and procedures on selected GAGAS engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

Prior to concluding the peer 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

² The Guide was issued by the Council of the Inspectors General on Integrity and Efficiency in March 2020.



the procedures we performed provide a reasonable basis for our opinion. Enclosure 1 to this report provides more detailed information on the background, objective, scope, and methodology of our review. Enclosure 2 provides a list of DCAA audits reviewed. Enclosure 3 includes Management's Response to this peer review report.

Responsibilities and Limitation

DCAA is responsible for establishing and maintaining a system of quality control designed to provide DCAA with reasonable assurance that the organization and its personnel comply in all material respects with professional standards and applicable legal and regulatory requirements. Our responsibility is to express an opinion on the design of the system of quality control and DCAA's compliance based on our review.

There are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

We wish to acknowledge the exceptional assistance and extensive cooperation provided by DCAA staff in our performance of the peer review. The work could not have been completed without their full participation and support.

Acuity Consulting, Inc.
Alexandria, Virginia

Enclosures-3



Enclosure 1

Background

The Defense Contract Audit Agency (DCAA), while serving the public interest as its primary customer, performs all necessary contract audits for the Department of Defense (DoD) and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. DCAA provides contract audit services to other Federal Agencies, as appropriate.

DCAA's organizational structure consists of four Corporate Audit Directorates organized by major contractors, three geographical regions primarily focused on large, mid-sized, and small contractors, and a Field Detachment focused on classified work.

DCAA's professional workforce consists of about 4,400 employees and has about 230 offices located throughout the United States, Europe, and the Middle East.

To comply with professional standards, DCAA is required to undergo an external peer review at least once every three (3) years by an organization not affiliated with DCAA. The external peer review should determine whether DCAA's internal quality control review system is in place and operating effectively to provide DCAA with reasonable assurance that its established policies and procedures and applicable auditing standards are being followed.

Objective

The objective of this engagement was to conduct an Independent Peer Review of DCAA in accordance with Government Auditing Standards (GAS), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) standards and guidelines. The peer review also considered selected audit work performed by DCAA offices during the period October 1, 2020 through September 30, 2021.

The primary objective of the peer review was to provide a reasonable basis for determining whether DCAA's system of quality control is suitably designed and DCAA is complying with its quality control requirements in order to provide it with reasonable assurance of conformance with applicable professional standards.



Scope

Acuity performed a virtual peer review of DCAA that included assessing sixty-nine audits conducted by DCAA staff for the period October 1, 2020 through September 30, 2021. We conducted the review from December 17, 2021 to June 30, 2022. We performed, among other things, a detailed review and assessment of audit procedures identified in the selected audits conducted by DCAA staff.

Our review was sufficient in scope to provide us a reasonable basis for determining whether, for the period under review, DCAA's system of quality control was suitably designed and whether DCAA was complying with its quality control system to provide DCAA with reasonable assurance of conforming to applicable professional standards.

Finally, Acuity provided a written System Report detailing our conclusions to the Contracting Officer's Representative (COR). Acuity did not prepare a Letter of Comment.

Methodology

We performed the virtual peer review in accordance with Government Auditing Standards, CIGIE standards and guidelines, and DCAA's policies and procedures including the Contract Audit Manual (CAM). We tested compliance with DCAA's system of quality control to the extent we considered appropriate. Our tests included performing risk assessments, developing sampling plans, testing DCAA's policies and procedures, independence and general controls testing, reviewing Continuing Professional Education (CPE) records, and interviewing and surveying a cross section of DCAA staff. We evaluated a sample of Reissued Reports, Terminated Audits, and DCAA's Internal Inspection Process. We also reviewed a sample of IPA audits for compliance with Government Audit Standards and DCAA's contract award and oversight monitoring. Finally, we reviewed a sample of audits performed by DCAA staff for compliance with Government Auditing Standards. Our specific methodology by area follows.

Risk Assessments:

We performed a preliminary risk assessment at the beginning of the peer review and updated our assessment throughout the peer review as we held interviews, reviewed DCAA documents to gain a better understanding of DCAA operations, and the status of corrective actions taken to address recommendations from the previous peer review. Our initial risk assessment was high, and our final risk assessment was medium given our understanding of DCAA operations, testing performed, and status of corrective actions taken to address previous peer review recommendations.



Sampling Plan:

We held a staff meeting to develop our sampling plan. The plan included using IDEA, our sampling software package, to select various samples that we planned to test. For example, to test CPE records our criteria was a 90 percent confidence level with a 10 percent expected error rate and set parameter at 70 items to be selected. For each sample selected, we reviewed the original outcome to assure ourselves that we had a good cross section of records, staff, or audits to test. In those cases, we felt a representative sample was not selected, we judgmentally added items. For example, if the original sample did not include a staff at a certain grade level, we randomly added a staff at that grade level to our sample.

Policies and Procedures (Appendix A):

To test DCAA policies and procedures, we requested DCAA staff to complete column 1 of CIGIE Appendix A, Policies and Procedures. We reviewed DCAA's responses to the questions in Appendix A to determine if DCAA's policies and procedures were current, comprehensive, and adequately designed in a manner that if properly fulfilled would provide DCAA with reasonable assurance that Government Auditing Standards (GAS) would be met. As part of our assessment of the policies and procedures, we completed Column 2 of CIGIE's Appendix A.

Independence, Competence, and Quality Control and Peer Review Standards (Appendix B):

To test overall independence, staff competency, and quality control and peer review standards, we assessed the placement of DCAA on the DoD organization chart; independence policies; independence training; staff independence on the sample audits we reviewed; DCAA's staffing roster for certifications; DCAA's hiring, promotion, and retention policies; and issues addressed in the last peer review report and letter of comment.

Continuing Professional Education Records (Appendix B):

We tested training records to assess whether DCAA auditors met Continuing Professional Education (CPE) requirements for Fiscal Year 2021. Our focus was on the 20 hours minimum requirement that staff performing GAGAS audits must earn each year. We did not test for the 80 hours every 2 years with a minimum of 24 hours in Government related courses because DCAA's 2-Years reporting cycle does not end before our field work completion date. Therefore, we were unable to verify if staff met the 80 hours and 24 hours requirements.

We segregated the universe of 3,518 DCAA auditors performing GAGAS audits into 2 subsets. One subset included 3,465 auditors who met the 20 hours minimum in Fiscal Year 2021. The second subset was comprised of 53 DCAA auditors that did not meet the 20 hours requirement but



provided a reason for not attaining the 20 hours such as illness, military duty, or was employed for only part of the scope year.

For staff that met the 20 hours we selected an original sample of 70. To ensure at least one selection for each grade level, we selected 4 additional samples for a total of 74. We verified DCAA staff received the training by reviewing certificates stating the staff had completed the course claimed.

For staff that did not meet the 20 hours, we judgmentally selected an original sample of 10 staff. To ensure we covered all reasons for staff not meeting the 20 hours requirement, we selected 3 additional samples for a total of 13. We requested and reviewed the documentation provided by DCAA to verify the reason(s) the employees were excused from meeting the 20 hours minimum during Fiscal Year 2021 was valid.

Interviews:

We selected a sample of staff to interview from a universe of 3,518 DCAA auditors who performed GAGAS audits during Fiscal Year 2021. In selecting the sample, we used a 90 percent confidence level and a 10 percent expected error rate and set a parameter of 70. We replaced 3 of the original samples selected due to one employee retiring and two employees being on extended leave. To ensure we selected at least one staff at each grade level from GS 7 to SES and had adequate coverage across the various DCAA Offices, we added 3 staff to our original sample for a total of 73 DCAA staff interviewed.

We developed and administered a structured interview instrument that was designed to assess DCAA staff knowledge of the agency's quality control system, staff knowledge of independence and CPE requirements, and staff understanding of how information is communicated throughout the agency. We also inquired about areas staff believed could be improved or are considered best practices.

Surveys (Optional Appendix G):

We administered CIGIE's Appendix G, Optional Audit Staff Survey, to a sample of DCAA staff that performed GAGAS audits during Fiscal Year 2021. The sample was selected from a universe of 3,518 DCAA auditors. In selecting the sample, we used a 90 percent confidence level and a 10 percent expected error rate and set a parameter of 70.

To ensure adequate coverage at all grade levels and across offices we selected an original sample of 73 employees. We replaced two of the original samples selected due to one employee being on maternity leave and one employee was no longer employed by DCAA. Later we were told another two employees will not be completing the survey because one had retired, and another was on extended leave. That left Acuity with a sample size of 71 employees.



We modified Appendix G to reflect the type of engagements performed by DCAA. After sending a second request to DCAA staff that had not responded to our request, Acuity received 59 completed surveys. This represented a response rate of about 83 percent. We summarized the checkmarks by yes, mostly, some, no, no opinion, and n/a to assess DCAA staff knowledge of the agency's quality control system. We also reviewed additional written comments some staff provided about DCAA's quality control system.

Reissued Reports:

Acuity developed a template of questions to ask DCAA staff about our sample of reissued reports. We provided the list of questions on the template to DCAA staff who responded to each question. We reviewed their responses and related audit files to confirm the reasons for the reissuance. The universe of reissued reports during Fiscal Year 2021 was 32. We judgmentally selected 8 reissued reports to review.

Terminated Audits:

We selected a sample of 50 audits that were terminated during Fiscal Year 2021 from a universe of 3,021. Most terminated audits were planned but never started. Of the 50 samples we selected only 10 were started and had hours charged to the engagement.

For those terminated audits that had hours charged to the codes, we reviewed the work that was performed up to the point of termination for compliance with GAS. Hours charged ranged from 6 to 777. The engagements we reviewed were in the planning or risk assessment phase when the engagements were terminated.

Internal Inspections:

The universe of internal inspections during Fiscal Year 2021 was 289. Our sample was 22. We obtained briefings from DCAA Quality Control Team regarding how the agency performs internal inspections. We reviewed overall statistics on findings by the DCAA Inspection Team and related corrective actions taken.

We reviewed a listing of audits inspected and the results for Fiscal Years 2019 and 2020. Also, we reviewed various directives on internal inspections such as DCAA Directive S-103 Elements of DCAA's Quality Control System. For our selection of 22 samples, we developed and administered a template of questions to determine if the internal inspection process was effective and conducted in accordance with DCAA policies and procedures.



Independent Public Accountants (IPAs) Audits (Appendix F):

Acuity selected a sample of 15 out of a universe of 133 audits performed by IPAs during Fiscal Year 2021. We completed CIGIE Appendix F, Checklist for the Monitoring of GAGAS Engagements Performed by an Independent Public Accounting Firm, to test our sample of audits performed by IPAs for compliance with DCAA's policies and procedures and GAS. We also documented a briefing from DCAA staff on its policies and procedures for awarding and monitoring contracts awarded to IPAs.

DCAA Staff Audits (Appendix D1)

Acuity selected a sample of 69 GAGAS audits performed by DCAA staff during Fiscal Year 2021 from a universe of 2,713 audits. Acuity followed our 3 steps approach to reviewing the engagements for compliance with DCAA policies and procedures and Government Auditing Standards (GAS). First, we reviewed the engagement files to gain an understanding of the objective, scope, and methodology of the engagement. We also performed a check of the staff assigned to the engagement to see if the team as a whole was qualified to perform the engagement by checking staffing levels and their certifications based on the staffing roster DCAA provided to Acuity. Next, we utilized Acuity's 21 points checklist to determine if the engagement complied with DCAA's policies and procedures and GAS. Finally, we completed CIGIE Appendix D1, Checklist for Examination Engagements Performed by the Office of Inspector General, to determine if the engagement complied with GAS.

A list of the 69 audits we tested are included in Enclosure 2.



Enclosure 2

List of Reviewed Government Auditing Standards Engagements

	DCAA Audit Number	DCAA Region	DCAA Field Audit Office	DCAA Audit Description
1	02721-2019U42000001	LM/BAE	BAE Land and Armaments York Resident Office	Defective Pricing - Matrix Selections
2	05711-2021C17900001	LM/BAE	LM RMS Moorestown Resident Office	Other Requested Special Audits
3	02811-2021C21000001	GDRT	RTX RIS North Texas Resident Office	Individual Price Proposals
4	02821-2020E42000005	GDRT	RTX RMD Southwest Resident Office	Defective Pricing - Matrix Selections
5	06421-2019N10100001	Northrop Grumman	NG McLean Resident Office	Annual Incurred Cost Audit Summary
6	06421-2021N23000001	Northrop Grumman	NG McLean Regional Office	Forward Pricing Rate Proposal Audits
7	07221-2020I24010001	Boeing	Boeing Home Office Resident Office	Estimating System
8	03211-2020J11070001	Central	Nashville Branch Office	Accounting System Audits
9	03301-2021O21000002	Central	Melbourne Branch Office	Individual Price Proposals
10	03401-2019B10100888	Central	Great Lakes Branch Office	Annual Incurred Cost Audit Summary
11	03531-2021M19500001	Central	North Texas Branch Office	CAS, Cost Impact Statement (Price Adjustment)
12	03111-2021S17740001	Central	Space Coast Branch Office	Pre-award Accounting Survey
13	03241-2021H17741001	Central	New Orleans Branch Office	Post award-Nonmajor Accounting System
14	03241-2021H17900002	Central	New Orleans Branch Office	Other Requested Special Audits
15	03261-2021B17740001	Central	Alabama Branch Office	Pre-award Accounting Survey
16	03311-2020K17741003	Central	San Antonio Branch Office	Post award-Nonmajor Accounting System
17	03341-2021B17740001	Central	Huntsville Branch Office	Pre-award Accounting Survey
18	03521-2021B17900003	Central	Houston Branch Office	Other Requested Special Audits
19	03531-2020M17900005	Central	North Texas Branch Office	Other Requested Special Audits



20	03531-2020M19100003	Central	North Texas Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
21	03661-2020D17740002	Central	Great Lakes Branch Office	Pre-award Accounting Survey
22	03931-2020Y17900001	Central	Tampa Bay Branch Office	Other Requested Special Audits
23	03941-2019G10100004	Central	Long Island Branch Office	Annual Incurred Cost Audit Summary
24	03941-2020L17100001	Central	Long Island Branch Office	Terminations
25	03951-2021C19100002	Central	PA Keystone State Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
26	03951-2021T17740001	Central	PA Keystone State Branch Office	Pre-award Accounting Survey
27	03961-2021L17740001	Central	Ohio River Valley Branch Office	Pre-award Accounting Survey
28	03961-2021N17740001	Central	Ohio River Valley Branch Office	Pre-award Accounting Survey
29	03971-2019S10100004	Central	Great Lakes Branch Office	Annual Incurred Cost Audit Summary
30	01571-2019J10100005	Central	New Orleans Branch Office	Annual Incurred Cost Audit Summary
31	01111- 2019U10100003	Central	Houston Branch Office	Annual Incurred Cost Audit Summary
32	03241- 2019J10100005	Central	New Orleans Branch Office	Annual Incurred Cost Audit Summary
33	03241- 2019S10100001	Central	New Orleans Branch Office	Annual Incurred Cost Audit Summary
34	03441- 2019T10100003	Central	Upstate New York Branch Office	Annual Incurred Cost Audit Summary
35	01101- 2020F17900001	Eastern	Atlanta Branch Office	Other Requested Special Audits
36	01101- 2020T10100003	Eastern	Atlanta Branch Office	Annual Incurred Cost Audit Summary
37	01151- 2020C17740002	Eastern	Merrimack Valley Branch Office	Pre-award Accounting Survey
38	01161- 2020K10100018	Eastern	Herndon Branch Office	Annual Incurred Cost Audit Summary
39	01191- 2019S10100002	Eastern	European Branch Office	Annual Incurred Cost Audit Summary
40	01321- 2021S19100001	Eastern	Reston Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
41	01331- 2017A10100038	Eastern	Springfield Branch Office	Annual Incurred Cost Audit Summary
42	01361- 2021F19100001	Eastern	New England Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
43	01431- 2018I17900001	Eastern	Southeastern Maryland Branch Office	Other Requested Special Audits



44	01431- 2021A19100002	Eastern	Southeastern Maryland Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
45	01431- 2021I17740002	Eastern	Southeastern Maryland Branch Office	Pre-award Accounting Survey
46	01451- 2020B17740001	Eastern	Fairfax Branch Office	Pre-award Accounting Survey
47	01451- 2021N17741001	Eastern	Fairfax Branch Office	Post award-Nonmajor Accounting System
48	01451- 2021O29000001	Eastern	Fairfax Branch Office	Other Transaction Agreements
49	01661- 2021A17740001	Eastern	Hampton Roads Branch Office	Pre-award Accounting Survey
50	01221- 2020A11090002	Eastern	Central Maryland Branch Office	Business System Deficiency Report Assignment
51	09321- 2018L10100002	Field Detachment	Rapid Operations Branch Office	Annual Incurred Cost Audit Summary
52	09521- 2021S21000001	Field Detachment	Mountain View Branch Office	Individual Price Proposals
53	09531- 2020M24010003	Field Detachment	Central Florida Branch Office	Estimating System
54	09721- 2021B19418001	Field Detachment	Atlantic Pacific Branch Office	CAS, Compliance Audits, STD 418
55	09821- 2021A23000001	Field Detachment	Valley Forge Branch Office	Forward Pricing Rate Proposal Audits
56	09821- 2021F17741006	Field Detachment	Valley Forge Branch Office	Post award-Nonmajor Accounting System
57	09321- 2021L23000001	Field Detachment	Rapid Operations Branch Office	Forward Pricing Rate Proposal Audits
58	04151- 2019T11070001	Western	San Diego Branch Office	Accounting System Audits
59	04171- 2019P19403101	Western	San Diego Branch Office	CAS, Compliance Audits, STD 403
60	04181- 2021S21000003	Western	Los Angeles Branch Office	Individual Price Proposals
61	04261- 2021F17900001	Western	Seattle Branch Office	Other Requested Special Audits
62	04281- 2021F17740007	Western	Silicon Valley Branch Office	Pre-award Accounting Survey
63	04441- 2021W19100001	Western	Chicago Branch Office	CAS, Init & Rev Disc Statement Compliance Audits
64	04561- 2019N10100008	Western	Wichita Branch Office	Annual Incurred Cost Audit Summary
65	04561- 2021A17740001	Western	Wichita Branch Office	Pre-award Accounting Survey
66	04591- 2019C10100001	Western	Utah-New Mexico Branch Office	Annual Incurred Cost Audit Summary
67	04631- 2021B17741007	Western	Denver Branch Office	Post award-Nonmajor Accounting System
68	04901-2021B21000002	Western	San Gabriel Valley Branch Office	Individual Price Proposals
69	04951- 2020H19410001	Western	San Fernando Valley Branch Office	CAS, Compliance Audits, STD 410



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Management Response

Enclosure 3



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JUL 15 2022

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SUBJECT: External Peer Review Discussion Draft Report on the Defense Contract Audit Agency (DCAA) Audit Organization

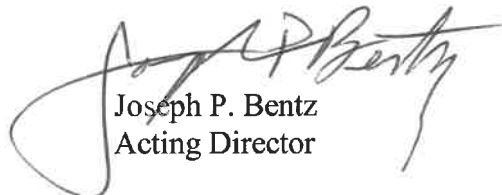
Dear Mr. Williams:

We have reviewed the external peer review discussion draft of the System Review Report on the Defense Contract Audit Agency (DCAA) Audit Organization for the period of October 1, 2020 through September 30, 2021, and concur with the results and your overall conclusion of a rating of *PASS*.

We wish to acknowledge the dedication and professionalism the Acuity team demonstrated during the performance of the peer review.

Any additional questions concerning this letter may be directed to Mr. Scott Hahn, Chief of the Policy & Quality Directorate at (571) 448-4555 or scott.hahn@dcaa.mil.

Sincerely,


Joseph P. Bentz
Acting Director