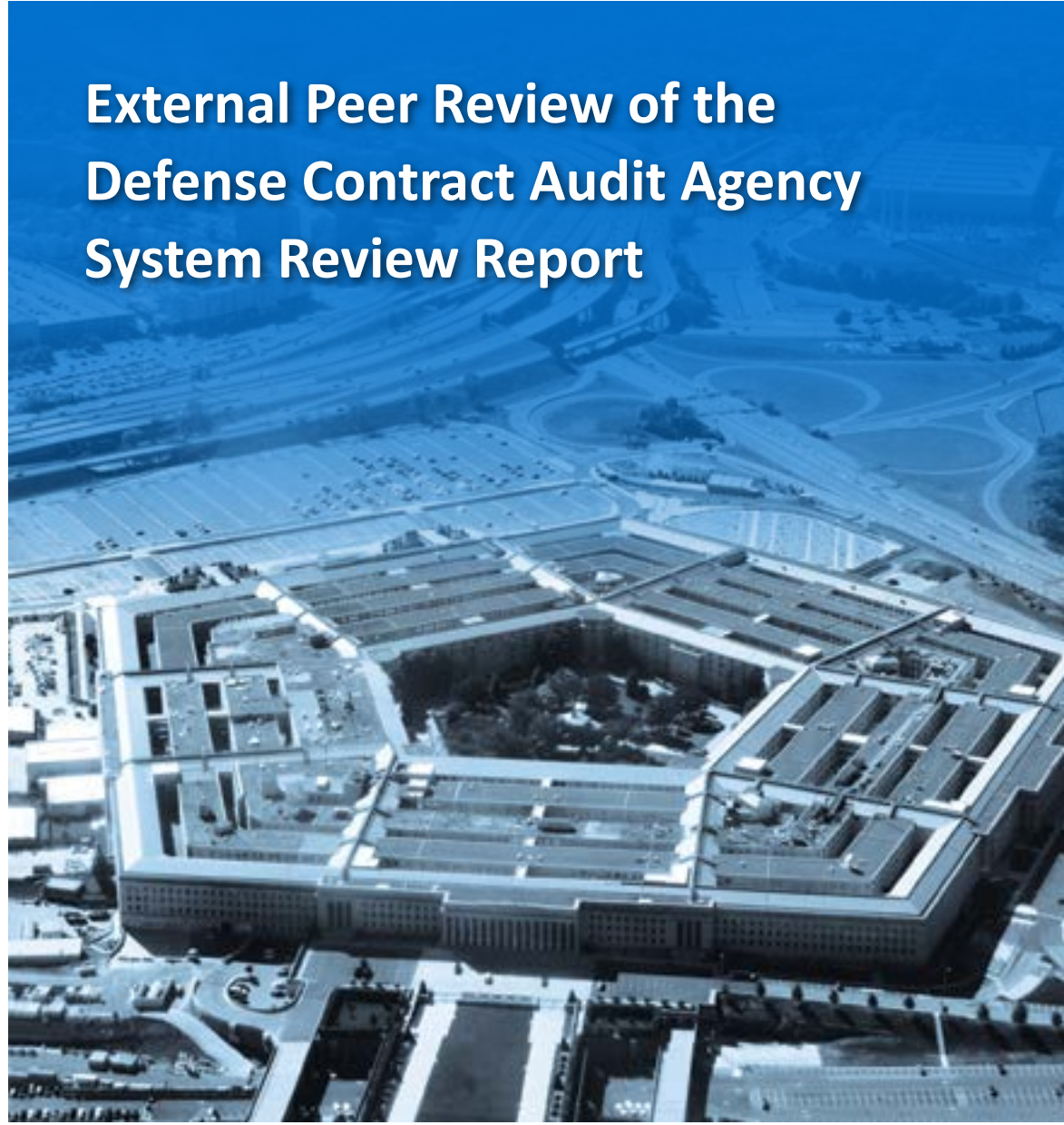




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 5, 2021



External Peer Review of the Defense Contract Audit Agency System Review Report

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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

March 5, 2021

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: External Peer Review of the Defense Contract Audit Agency
System Review Report (Report No. DODIG 2021-059)

This final report provides the results of the DoD Office of Inspector General's peer review of the Defense Contract Audit Agency. We previously provided copies of the draft report and requested written management comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in Enclosure 5 of the report.

Although the Defense Contract Audit Agency Director disagreed with some of the findings, the Director agreed to address all the recommendations presented in the report. Recommendations 3, 4.b, and 4.c are closed because we verified that the Defense Contract Audit Agency implemented the recommendations. We consider the remaining recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response sections of this report, we will close the remaining recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, within 90 days, please provide us your response concerning specific actions in process or completed on the recommendations. Send your response to followup@dodig.mil.

If you have any questions, please contact Mark Dixon at (703) 604-8739.

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is located below the text.

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight





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DEPARTMENT OF DEFENSE
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March 5, 2021

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: External Peer Review of the Defense Contract Audit Agency
System Review Report (Report No. DODIG-2021-059)

We reviewed the system of quality control for the Defense Contract Audit Agency (DCAA) in effect for the 3-year period ended June 30, 2019. A system of quality control encompasses the DCAA organizational structure, the policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with the *Government Auditing Standards* (GAS) and applicable legal and regulatory requirements.¹ The elements of quality control are described in the *Government Auditing Standards*.

In our opinion, except for the deficiencies described in this report, the system of quality control for the DCAA in effect for the 3-year period ended June 30, 2019, has been suitably designed and complied with to provide the DCAA with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards.

Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The DCAA has received a rating of *pass with deficiencies*.

Letter of Comment

We have issued a Letter of Comment dated March 5, 2021, that sets forth findings we did not consider to be of sufficient significance to affect our opinion expressed in this report.

Basis of Opinion

We conducted our review in accordance with the *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* (the CIGIE Guide), September 2014 version.

During our review, we interviewed DCAA audit personnel and obtained an understanding of the nature of the DCAA and the design of its system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessment, we selected 60 audits that

¹ The *Government Auditing Standards* are issued by the Government Accountability Office. The 2018 version of the *Government Auditing Standards* became effective for attestation engagements for periods on or after June 30, 2020. Therefore, the 2011 version of the *Government Auditing Standards* was in effect during the period covered by our review.

the DCAA completed from July 1, 2018, through June 30, 2019.² We tested the 60 audits for compliance with the *Government Auditing Standards*, including the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements (which is incorporated in the *Government Auditing Standards* by reference) and the DCAA system of quality control.³ Of the 60 sampled audits, 59 audits were statistically selected and one was non-statistically selected. The 60 audits we selected represent a reasonable cross-section of the audits performed by the DCAA during the 3-year period ended June 30, 2019.

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

We 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. Enclosure 1 identifies the scope and methodology and the DCAA offices we visited (see Table 2). Enclosure 2 lists the 60 audits we reviewed. Enclosure 3 identifies the types of findings we found by DCAA audit number.

Responsibilities and Limitation

The DCAA is responsible for establishing and maintaining a system of quality control designed to provide the 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.

² From July 1, 2018, through June 30, 2019, the DCAA performed only attestation engagements. An attestation is an audit service performed to determine the reliability of a subject matter. The auditors evaluate the subject matter in accordance with a criteria. The three types of attestation engagements consist of an examination, a review, and an agreed-upon procedures engagement. In most instances, the DCAA conducts examinations, which provide the highest level of assurance. Agreed-upon procedures provide the lowest level of assurance. In this report, we refer to attestation engagements as "audits."

³ The Statements on Standards for Attestation Engagements are issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. The Statements on Standards for Attestation Engagements Number 18 became effective on May 1, 2017.

Organization of the Defense Contract Audit Agency

Formed in 1965, the DCAA provides audit and financial advisory services to the DoD and other Federal entities responsible for acquisition and contract administration. The DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer. The DCAA is the largest audit organization in the Government and employs approximately 4,000 auditors at over 300 locations in the United States, Europe, Middle East, Asia, and Pacific. The DCAA consists of a headquarters, three regions, four Corporate Audit Directorates (CADs), and a Field Detachment for classified audits.⁴ Enclosure 1 identifies the DCAA organizational structure.

Our description of each deficiency references the 2011 version of the *Government Auditing Standards* because this version was in effect during the period covered by our review. However, our recommendations reference the 2018 version of the *Government Auditing Standards* because that version applies to audits for periods on or after June 30, 2020.

Overall Management Comments and Our Response

Overall Defense Contract Audit Agency Comments

The DCAA Director agreed with the pass with deficiencies rating and the overall conclusions on the evidence, reporting, and documentation deficiencies. However, the DCAA Director disagreed that the planning, supervision, and professional judgment deficiencies rose to the level of a reportable deficiency within the DCAA quality control system. The DCAA Director stated that she does not believe the findings in these areas were pervasive, as defined in the CIGIE Guide. The DCAA Director also stated that the DoD Office of Inspector General (OIG) overstated some of its conclusions on the deficiencies.

In addition, the DCAA Director disagreed that several of the findings that make up all six deficiencies, including evidence, reporting, and documentation deficiencies, are significant enough to meet the definition of a deficiency defined in the CIGIE Guide. The CIGIE guide states, “[t]he significance of disclosed findings in the selected audits reviewed should be determined by the extent the reports could not be relied upon due to the failure of the reports and underlying work, including documentation, to adhere to GAGAS.” For those findings disputed by the DCAA, the DCAA Director stated that the DCAA does not believe the users’ ability to rely on the report was significantly impacted and did not rise to the level of a system deficiency.

⁴ A DCAA CAD is a network of DCAA field audit offices that audits one or more of the following major defense contractors: Raytheon, General Dynamics, BAE, Northrop Grumman, Boeing, Honeywell, and Lockheed Martin. As of January 22, 2021, the DCAA maintained four CADs.

Our Response

We disagree with the DCAA Director's statement that several of the findings that make up each deficiency are not significant enough to meet the definition of a deficiency in the CIGIE Guide. Our reported deficiencies in this report qualify as deficiencies according to the following definition of a deficiency in the CIGIE Guide:

A deficiency is one or more findings that the review team has concluded, due to the nature, causes, pattern, or pervasiveness, including the relative importance of the finding to the audit organization's system of quality control taken as a whole, could create a situation in which the organization would not have reasonable assurance of performing and/or reporting in conformity with applicable professional standards in one or more important respects. For the External Peer Review, deficiencies that do not rise to the level of a significant deficiency are communicated in a report with a rating of pass with deficiencies.

Our reported findings also meet the definition of a finding in the CIGIE Guide. The CIGIE Guide defines a finding as "one or more related matters that result from a condition such that there is more than a remote possibility that the reviewed OIG audit organization would not perform and/or report in conformity with applicable professional standards." The CIGIE Guide also states that the review team must conclude whether one or more findings rise to the level of deficiency or significant deficiency.

Our sample represents a reasonable cross-section of the 3,616 audits completed from July 1, 2018, through June 30, 2019. We identified 50 findings from 29 of the 60 selected audits that resulted in evidence, reporting, or planning deficiencies, because the findings demonstrate a pattern and pervasiveness that reflected a need to improve the reliability of DCAA's system of quality control and reporting in compliance with professional standards. After reviewing the nature and pervasiveness of the findings, and their importance to the DCAA system of quality control taken as a whole, we determined that the findings could create a situation in which the organization would not have reasonable assurance of conforming with applicable professional standards.

In addition, we disagree with the Director's statement that our findings did not significantly impact the users' ability to rely on the audit reports. The CIGIE Guide states that the significance of disclosed findings "... should be determined by the extent to which the reports could not be relied upon due to the failure of the reports and underlying work, including documentation, to adhere to GAGAS." For example, the reliability of the audit report can be impacted by findings and conclusions that are not supported by sufficient, appropriate evidence. We identified 33 findings among 25 of the 60 selected audits that involved evidence and reporting deficiencies, which clearly impacted the reliability of the underlying audit reports. For example, 19 of the 33 findings involved DCAA auditors not obtaining sufficient and appropriate evidence to support conclusions used as a basis for the opinion expressed in the report. Therefore, the users' ability to rely on the report was negatively impacted.

Deficiency 1. The DCAA Auditors for 19 Audits Did Not Obtain Sufficient, Appropriate Evidence to Support Their Opinion

For 19 of 60 audits (32 percent), the DCAA auditors did not obtain sufficient, appropriate evidence to support conclusions used as a basis for the opinion expressed in the report. GAS 2.09a states that an examination engagement consists of obtaining sufficient, appropriate evidence to express an opinion.⁵

We identified one or more evidence findings for each of the 19 audits. The following evidence findings were common among the 19 audits.

- In 11 audits, the auditors did not obtain sufficient evidence to support their conclusions. For instance, in DCAA Audit No. 01431-2013C10100022, the auditors examined direct labor costs to determine if the costs complied with contract terms. The auditors did not obtain sufficient evidence to support their conclusion that direct labor costs complied with contract terms. Specifically, when the auditors planned their testing of direct labor costs, they identified internal control concerns that would increase the risk that direct labor costs did not comply with contract terms. Therefore, the auditors documented in their selection plan that they planned to test 21 percent of direct labor costs for compliance with contract terms. However, the auditors only tested 11 percent of the direct labor costs, which did not meet the auditors' selection plan. The auditors did not document in the audit working papers why the sample was sufficient to address their internal controls concerns. Based on the identified concerns with internal controls, the auditors should have completed testing of the 21-percent sample of direct labor costs as they had planned.
- In 8 audits, the auditors did not obtain sufficient, appropriate evidence to support their conclusion that costs were reasonable. For example, in DCAA Audit No. 01191-2018G17200001, the auditors documented that they performed procedures to determine that specialist and technical fees were reasonable, but did not explain what procedures they performed and evidence they obtained to determine that the costs were reasonable. Through discussions with the auditors, we determined that the auditors did not perform procedures to obtain sufficient, appropriate evidence for establishing the reasonableness of the specialist and technical fees.
- In 7 audits, the auditors did not obtain appropriate evidence to support their conclusions. For example, in DCAA Audit No. 01571-2015H10100011, the auditors did not perform procedures to obtain appropriate evidence and to support the conclusion that subcontract costs complied with contract terms.⁶ The auditors documented

⁵ The GAS 2.09a requirement was moved to section 1.18a of the 2018 *Government Auditing Standards*. We did not include the criteria relevant to all evidence standards in *Government Auditing Standards* and *Statements on Standards for Attestation Engagements*. Instead, we identified the criteria relevant to the five examples of noncompliances. Of the 60 audits selected for review, 59 audits were examinations and 1 audit was an agreed-upon procedure. The agreed-upon procedure audit was not one of the 19 audits with evidence findings.

⁶ The subcontractor must comply with the prime contract terms that flow down to the subcontract.

that they used invoices and proof of payment to determine that subcontract costs were properly recorded, paid, and approved and to determine that the subcontract was needed. Through discussions with the auditors, we determined that they did not obtain subcontract agreements that corresponded to the year under audit to verify the terms of the contract that are relevant to the subcontract. Invoices and proof of payment will confirm that the costs were incurred and paid, but they will not confirm that the costs complied with contract terms. The auditors should have obtained appropriate evidence, such as the subcontract, to support the conclusion that the subcontract costs complied with contract terms.

- In 7 audits, the auditors did not obtain sufficient, appropriate evidence to determine whether information provided by the contractor was reliable to use as a basis for their reported conclusions. For example, in DCAA Audit No. 01161-2015K10100002, the auditors examined billed costs to determine if the costs complied with contract terms. During testing of billed costs, the auditors relied on the billed costs from the contractor's proposal without verifying the reliability of the information with supporting documentation, such as invoices.
- In 4 audits, the auditors did not obtain sufficient, appropriate evidence to support their conclusion that proposed costs complied with solicitation or contract terms.⁷ For example, in DCAA Audit No. 04981-2018E17900003, the auditors examined the direct labor rates to determine if they complied with contract terms. During planning, the auditors identified a risk that the contractor may not have complied with a contract term that imposed a ceiling on direct labor rates. However, the auditors did not design or perform the necessary procedures to obtain evidence that the contractor complied with contract term.

The DCAA Took Corrective Actions on Prior Peer Review Recommendations for Evidence

The DCAA took corrective actions to address prior peer review recommendations for evidence findings. In Report No. DODIG-2018-028, the DoD OIG reported that in 18 of 67 audits (27 percent) the DCAA did not obtain sufficient, appropriate evidence to support the reported opinion.⁸ The DoD OIG recommended that the DCAA develop standard audit program procedures related to reasonableness and compliance with contract terms; provide training to auditors on obtaining sufficient, appropriate evidence; and assess and improve on and expand the use of independent reference reviews. In FY 2016, the DCAA updated the standard audit programs to include audit procedures for testing of reasonableness and compliance with contract terms. From October 2017 through March 2018, the DCAA conducted training for all audit staff related to testing for reasonableness and considering subject matter criteria. Lastly, on January 29, 2018, the DCAA directed all field audit offices to document a plan to expand the use of independent reference reviews.

⁷ A solicitation is a request to submit offers or quotations to the Government.

⁸ Report No. DODIG-2018-028, "External Peer Review on the Defense Contract Audit Agency System Review Report," November 17, 2017.

However, the corrective actions did not effectively ensure that DCAA auditors obtain sufficient, appropriate evidence. All 60 audits we selected for this review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the corrective actions. Despite the corrective actions, the results of this review reflect that 19 of 60 audits (32 percent) had evidence findings. Based on the results of this peer review, the DCAA still needs to take additional actions to ensure that auditors obtain sufficient, appropriate evidence.

We Identified Three Factors That Contributed to Auditors Not Obtaining Sufficient, Appropriate Evidence

We identified three factors that contributed to the evidence findings, including auditors who did not recognize the existence of an evidence finding, auditors who did not plan procedures to address risk, and supervisors who did not detect a lack of sufficient evidence.

Auditors Did Not Recognize the Existence of the Evidence Deficiency

For 14 audits with evidence findings, the auditors did not recognize the existence of the evidence findings. The auditors stated that they obtained sufficient, appropriate evidence. For example, in DCAA Audit No. 01161-2015K10100002, the auditors did not obtain sufficient, appropriate evidence to verify the contractor's proposed billed costs were accurate. The auditors stated that they performed alternate procedures to obtain evidence to verify the billed costs because they did not have access to the invoicing system that summarized the invoices billed to the Government. The alternate procedures were not sufficient and appropriate because the auditors did not obtain evidence of the actual billed costs. To determine the accuracy of the proposed billed costs, the auditors should have compared the proposed billed costs to the actual billed costs. Instead, the auditors compared the proposed billed costs to the incurred costs to determine if there were significant overbillings. As a result of the alternate procedures, the auditors accepted the proposed billed costs. The auditors stated that not obtaining evidence to verify the contractor's proposed billed costs to information such as invoices billed to the Government did not affect the audit. However, the audit report opinion states that "proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts." The proposed billed amount related to unsettled flexibly priced contracts, so they were the subject of the audit opinion.

We reviewed DCAA's related policies and procedures for obtaining sufficient, appropriate evidence, and we determined that the policies are comprehensive and consistent with the *Government Auditing Standards*. The auditors did not comply with DCAA policy designed to help prevent an evidence deficiency. Therefore, auditors need training to emphasize the DCAA policy for obtaining evidence. The DCAA should provide training that incorporates scenario-based examples, which emphasize the evidence needed to ensure all conclusions are supported. Using scenarios in training will allow the audit staff to practice decision-making and to apply the training concepts.

Auditors Did Not Plan Procedures to Address Risk

For 8 audits with evidence findings, the auditors did not plan procedures to obtain evidence to address the risk of material misstatement. The auditors did not tailor the standard audit program procedures to address the risk of material misstatement related to noncompliances with reasonableness requirements and solicitation and contract terms. For example, in DCAA Audit No. 01191-2018G17200001, the auditors did not plan procedures to obtain evidence to address the risk of material misstatement due to reasonableness. During planning, the auditors tailored the standard audit program by adding an audit procedure which stated that, “For the accounts selected in the transaction testing plan, obtain original supporting documentation and examine the support for compliance with [Federal Acquisition Regulations (FAR)] 31.205...and FAR 31.201 (allowability, reasonableness, allocability, and terms of the contract).”⁹ The auditors did not identify specific procedures that they would perform and evidence they would obtain to test for reasonableness. As a result, the auditors did not perform procedures or obtain evidence to support their conclusions that direct labor costs were reasonable. The DCAA should require auditors to modify the standard audit program procedures in the areas of reasonableness and solicitation and contract terms to identify the specific procedures to be performed and the specific evidence to be obtained.

Supervisory Reviews Did Not Detect the Lack of Sufficient Evidence

For the 19 audits with evidence findings, supervisory reviews did not detect the lack of sufficient evidence in support of the audit report opinion. An effective supervisory review of the work performed would recognize the lack of sufficient evidence to support the report opinion and prompt the supervisor to request corrective action from the auditors. The DCAA does not use a tool, such as a checklist, to help supervisors determine if auditors have obtained sufficient evidence to support the reported opinion. The DCAA should develop a tool, such as a checklist, to assist supervisors with detecting issues that may lead to deficiencies with *Government Auditing Standards*. The tool should help supervisors ensure auditors comply with *Government Auditing Standards* in areas of planning the audit; documenting the procedures performed and evidence obtained; obtaining sufficient, appropriate evidence to support conclusions; and reporting findings and conclusions.

Reported Opinions May Not be Reliable for 19 Audits

As a result of the evidence findings, the reported opinions for 19 of 60 audits may not be reliable. If the auditors obtained sufficient, appropriate evidence, they may have identified additional material noncompliances that were not identified in the reports.

⁹ FAR 31.205, “Selected Costs,” identifies the allowability requirements for selected areas of cost. FAR 31.201, “General,” identifies the general allowability requirements.

Management Comments on the Deficiency and Our Response

Defense Contract Audit Agency Comments

The DCAA Director agreed with our reported evidence deficiency. However, the Director also stated that not all of the evidence findings we reported constitute “actual findings.” The Director further stated that not all findings rose to the level of an overall system deficiency.

Our Response

We disagree with the DCAA Director’s comment that the evidence findings we reported on did not constitute actual findings. Our review disclosed evidence findings associated with 19 of the 60 audits (32 percent) because the auditors did not obtain sufficient evidence to support the audit conclusions. However, the DCAA management comments did not provide specific comments or evidence to support the assertion that our conclusions were inaccurate. We determined that the evidence findings among the 19 audits constituted an overall system deficiency because the nature, pattern, and pervasiveness of the findings could create a situation in which the DCAA would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Defense Contract Audit Agency Director provide training to auditors on the importance of adhering to the Defense Contract Audit Agency policy requirements for obtaining sufficient evidence, which incorporates scenario-based learning and includes the following concepts:

- a. Establishing the reliability of the contractor’s information as basis for supporting the reported conclusion.**
- b. Supporting conclusions that a contractor’s proposed costs were reasonable.**
- c. Supporting conclusions that a contractor’s proposed costs were in accordance with contract terms.**

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation and plans to develop the training by September 30, 2021, and to deliver the training 6 months after development.

Our Response

The DCAA Director's comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the training includes the concepts identified in Recommendation 1, and that the DCAA has provided training to all auditors.

Recommendation 2

We recommend that the Defense Contract Audit Agency Director establish policies and procedures to require that auditors identify and document in the audit program the specific procedures to be performed and evidence to be obtained when planning procedures to determine that costs are reasonable in accordance with solicitation and contract terms.

Defense Contract Audit Agency Comments

The DCAA Director disagreed with the recommendation and stated that the recommendation was too prescriptive because the standard audit program requires auditors to perform procedures and obtain evidence to determine that costs are reasonable. The DCAA Director stated that the root cause of the deficiency will be addressed through training that will be developed by September 30, 2021, and delivered to auditors 6 months after development. The training will emphasize the requirement to appropriately document the completion of planned audit procedures.

Our Response

Although the DCAA Director disagreed with the recommendation, her alternative corrective action to provide training addressed the intent of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the training addresses the need to obtain sufficient, appropriate evidence and emphasizes the requirement to appropriately document that the completion of planned audit procedures addresses the root cause of the deficiency, and has been provided to all auditors.

Recommendation 3

We recommend that the Defense Contract Audit Agency Director develop a tool, such as a quality control checklist, for supervisors to help ensure auditors comply with Government Auditing Standards, which addresses the following areas:

- a. Planning the audit.**
- b. Documenting the specific procedures performed and evidence obtained.**
- c. Obtaining sufficient, appropriate evidence.**
- d. Reporting findings and conclusions.**

Defense Contract Audit Agency Comments

The DCAA Director disagreed with the recommendation and stated that an additional checklist for supervisors was not needed because supervisors have access to independence reference review and quality assurance checklists. The Director stated that the DCAA will review the existing checklists to ensure they contain information related to the recommendation. Additionally, the DCAA will communicate the importance of timely and thorough supervisory reviews.

Our Response

Although the DCAA Director disagreed with the recommendation, her comments and recent actions taken by the DCAA have addressed the specifics of the recommendation. Based on discussions with DCAA representatives that occurred after we received the DCAA comments, we learned that on May 1, 2020, the DCAA had developed and implemented an additional quality control checklist designed to evaluate audits for compliance with *Government Auditing Standards*. The Field Audit Office Assistant for Quality must complete the quality control checklist before the Field Audit Office issues each audit report. The DCAA requires the completion of the quality control checklist for audits started subsequent to May 1, 2020, which is after the DCAA auditors started the 60 audits we selected for review. We determined that the checklist adequately covers the four areas addressed in the recommendation. Therefore, we have closed the recommendation.

Deficiency 2. The DCAA Auditors for 17 Audits Did Not Comply With the Planning Standards

For 17 of the 60 audits (28 percent), the DCAA auditors did not plan the audit in accordance with standards. Specifically, the auditors did not design an audit plan sufficient to address the risk of material misstatement with the subject matter identified during planning. GAS 5.01 requires that auditors comply with the American Institute of Certified Public Accountants *Codification of Statements on Standards for Attestation Engagements* (AT-C). The following is a listing of applicable AT-C standards for planning audits.

- AT-C 205.15 states that an auditor should obtain an understanding of the internal controls that are relevant to the audit subject matter.
- AT-C 205.14 states that an auditor should obtain an understanding of the subject matter sufficient to identify and assess the risk of material misstatement and to design procedures that are responsive to the assessed risk of material misstatement.
- AT-C 205.13b states that the auditor should develop a plan that includes the nature, timing, and extent of planned further procedures.
- AT-C 205.16 states that the auditor should consider materiality of the subject matter when establishing the overall audit strategy.

Additionally, GAS 5.07 states that “auditors should design the engagement to detect instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the subject matter or the assertion thereon of the examination engagement.”¹⁰

We identified one or more planning findings for each of the 17 audits. The following planning findings were common among the 17 audits.

- In 9 audits, the auditors did not obtain an understanding of the internal controls that are relevant to the audit subject matter. For example, in DCAA Audit No. 03241-2016S10100006, the purpose of the audit was to determine if the incurred cost proposal complied with contract terms. The auditors did not obtain an understanding of internal controls related to compliance with contract terms for labor and indirect costs, which were significant elements of cost.
- In 7 audits, the auditors did not gain an understanding of the criteria related to the subject matter, such as the solicitation and contract terms. For example, in DCAA Audit No. 02351-2018H21000002, the purpose of the audit was to determine if the forward pricing proposal complied with solicitation terms. The auditors did not review and summarize the solicitation terms from the request for proposal to obtain an understanding of the solicitation terms.¹¹
- In 4 audits, the auditors did not adequately plan the nature, timing, and extent of testing procedures. For instance, in DCAA Audit No. 04981-2018E17900001, the auditors identified reasonableness of direct labor cost as a potential noncompliance during planning. However, the auditors did not plan the nature, timing, and extent of testing procedures to determine if direct labor costs were reasonable.
- In 3 audits, the auditors did not consider materiality for the subject matter. For instance, in Audit No. 01431-2013C10100022, the auditors performed an audit of direct and indirect costs incurred between FY 2012 and FY 2015. The auditors did not establish a materiality threshold for elements of direct cost. The materiality threshold represents the minimum amount of costs that the auditors would consider significant enough to affect reported findings and conclusions. If the auditors do not establish a materiality threshold, they may expend audit resources on immaterial amounts that will not affect reported findings and conclusions.

¹⁰ We did not include the criteria relevant to all planning standards in the *Government Auditing Standards* and the Statements on Standards for Attestation Engagements. Instead, we identified the criteria relevant to the five examples of noncompliances. Of the 60 audits we selected for review, 59 audits were examinations and 1 audit was an agreed-upon procedures engagement. For the one agreed-upon procedures audit, we used AT-C Section 215, *Agreed-Upon Procedures Engagements*, as criteria for this audit. The agreed-upon procedures audit was not one of the 17 audits with planning findings.

¹¹ When negotiation between the Government and the contractor takes place, a solicitation is called a request for proposal.

- In 3 audits, the auditors did not consider the risk of material misstatement due to fraud. For instance, in DCAA Audit No. 01331-2019H17740003, the purpose of the audit was to determine if the contractor’s accounting system design complied with regulations. During planning, the auditors reviewed the contractor’s description of its accounting system, which included the following potential fraud indicators:
 - The senior vice president simultaneously worked in an executive management capacity for two co-located contractors.
 - The potential existed for related-party facility expenses at the two co-located contractors.
 - An employee performed indirect functions in the U.S. Virgin Islands when the contractor’s primary business was in the national capital region.

The auditors did not plan procedures, such as inquiries or observations, to address the potential fraud risk associated with proper timekeeping and accumulating and allocating indirect costs.

The DCAA Took Corrective Actions on Prior Peer Review Recommendations for Gaining an Understanding of the Criteria in Planning

The DCAA took corrective actions to address prior peer review recommendations for a finding related to gaining an understanding of the criteria in planning. In the Letter of Comment from the previous DCAA peer review, the DoD OIG reported that in 7 of 67 audits (10 percent) the DCAA did not gain an understanding of the criteria in planning.¹² The DoD OIG recommended that the DCAA provide training to auditors on planning steps to address the subject matter criteria and monitor testing for compliance with subject matter criteria through internal quality assurance reviews. From October 2017 through March 2018, the DCAA conducted training for all audit staff related to gaining an understanding of subject matter criteria in planning. On July 25, 2019, the DCAA provided the portion from the internal quality assurance checklist used to monitor testing for compliance with subject matter criteria.

However, the corrective actions did not effectively ensure that DCAA auditors consider the criteria in planning. The 60 audits we selected for this review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the corrective actions. Despite the corrective actions, the results of this review reflect that 7 of 60 audits (12 percent) had planning findings related to gaining an understanding of the criteria in planning. Based on the results of this peer review, the DCAA still needs to take additional actions to ensure that auditors obtain sufficient, appropriate evidence.

¹² DoD OIG Project No. D2016-DAPOCF-0122.000, “External Peer Review on the Defense Contract Audit Agency Letter of Comment,” November 17, 2017.

Auditors Did Not Recognize That Their Planning Was Inadequate

We found that a contributing factor was that the auditors did not recognize that their planning of the audits was inadequate. For 11 audits with planning findings, the auditors stated that the work performed was sufficient. For example, in DCAA Audit No. 04981-2018E17900003, the auditors stated that they did not need to plan the nature, timing, and extent of testing of contract terms related to direct labor rates because the standard audit program already included a step to address contract terms related to direct labor rates. The DCAA standard audit program for incurred cost audits states,

If applicable, review and incorporate the results of the [mandatory annual audit requirement] MAAR 6 (labor floor check and interview) audit. Based on the results of the risk assessment, perform additional labor testing procedures, as required, to opine on the allowability, allocability, and reasonableness of incurred labor costs.

Because the standard audit program does not state what the additional labor testing procedures were, the auditors should have designed additional audit procedures based on the results of the risk assessment and modified the standard audit program to plan the additional audit procedures. The purpose of planning is to identify the audit procedures you need to perform and evidence you need to obtain based on the assessed risk.

We reviewed DCAA's related policies and procedures for planning the audit, and we determined that the policies and procedures are comprehensive and consistent with the *Government Auditing Standards*. The auditors did not comply with DCAA policy designed to help prevent planning deficiencies. From October 2017 through March 2018, the DCAA conducted training for all audit staff related to gaining an understanding of subject matter criteria in planning. The purpose of the training was to emphasize the importance of identifying criteria during planning, designing audit procedures to test for compliance with subject matter criteria, and executing the planned procedures. The training related to considering the criteria used in the audit could have been more effective by including exercises that use audit scenarios to allow the audit staff to practice decision-making and to apply the training concepts. The DCAA should provide training that incorporates scenario-based examples to emphasize specific procedures that auditors must perform to gain an understanding of solicitation and contract terms; internal controls; materiality; and fraud awareness. Using scenarios in training will allow the audit staff to practice decision-making and apply the training concepts.

DCAA Auditors May Not Have Planned Sufficient and Appropriate Procedures to Address Risk in 17 Audits

Because of the planning findings, the auditors assigned to the 17 audits may not have planned sufficient and appropriate procedures to address the risk of material noncompliance based on the audit objective. For example, if the audit objective was to determine compliance with contract terms, the auditors may not have planned sufficient and appropriate procedures to address the risk of material noncompliance with contract terms if they did not gain an understanding of the contract terms.

Management Comments on the Deficiency and Our Response

Defense Contract Audit Agency Comments

The DCAA Director disagreed that all of the reported findings constitute actual findings, or rise to the level of an overall system deficiency. The DCAA Director provided specific comments on 5 of the 17 audits that we cited for a planning deficiency (see Enclosure 4, “Management Comments on Selected Audits and Our Response,” for a summary of management comments on the 5 audits). Three of the five audits relate to the planning requirement that auditors document their understanding of internal controls. Generally, the DCAA disagreed that the reported findings for the five audits resulted in a significant impact to audit planning and therefore, the reported findings for the five audits do not warrant being reported as an overall system planning deficiency.

Our Response

We disagree with the DCAA Director’s comments that our reported planning findings did not constitute actual findings, or rise to the level of an overall system deficiency. Our review disclosed several planning findings among 17 of the 60 audits that we selected for review. The findings demonstrate a pattern and pervasiveness that reflect the need for improving the planning of DCAA audits. After reviewing the nature of the findings among the 17 audits and their importance to the DCAA system of quality control taken as a whole, we concluded that the findings could create a situation in which the organization would not have reasonable assurance of conforming with applicable planning requirements in the *Government Auditing Standards*. Therefore, the findings collectively rise to the level of a reportable planning deficiency. See Enclosure 4, “Management Comments on Selected Audits and Our Response,” for our response to the management comments for the five audits.

Recommendations, Management Comments, and Our Response

Recommendation 4

We recommend that the Defense Contract Audit Agency Director provide training to auditors on the importance of adhering to the Defense Contract Audit Agency policy requirements for planning the audit that incorporates scenario-based examples and includes the following concepts:

- a. Reviewing and summarizing the request for proposal for solicitation terms and the contract for contract terms that are the criteria against the subject matter that will be examined.
- b. Gaining an understanding of internal controls that are relevant to the risk for material misstatement.
- c. Determining materiality of the subject matter.
- d. Planning procedures to address the risk of material misstatement of the subject matter.
- e. Developing awareness of fraud risk when planning the audit.

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation. The DCAA plans to develop training to address Recommendations 4.a, 4.d, and 4.e by September 30, 2021, and to deliver the training 6 months after development. To address Recommendation 4.b, the DCAA developed a quality control checklist that the Field Audit Office Assistant for Quality must complete before report issuance. In addition, the DCAA Integrity and Quality Assurance Directorate provided training in August 2020 on documenting an understanding of internal controls to all Field Audit Office Assistants for Quality DCAA-wide. Finally, for Recommendation 4.c, the DCAA developed and issued additional guidance on determining materiality by:

- distributing a memorandum to all audit staff in July 2019 on determining materiality;
- updating the July 2019 version of the DCAA Contract Audit Manual for the additional materiality guidance; and
- developing E-learning Course AUD112E in July 2019 entitled “Materiality in Audits of Incurred Cost.”

Our Response

The DCAA Director’s comments addressed the specifics of all parts of the recommendation. Recommendations 4.a, 4d, and 4.e are resolved and will remain open. We will close those parts of the recommendation once we verify that the training for Recommendations 4.a, 4.d, and 4.e was developed and provided to all auditors.

We have closed Recommendations 4.b and 4.c. We verified that the training developed for Recommendation 4.b was adequate and provided to all Field Audit Office Assistants for Quality in August 2020. We verified that the DCAA issued additional guidance for Recommendation 4.c, and that it adequately addressed the determination of materiality.

Deficiency 3. The DCAA Auditors for 14 Audits Did Not Comply With the Reporting Standards

For 14 of 60 audits (23 percent), the DCAA auditors did not comply with the reporting standards. Specifically, the auditors did not communicate pertinent information about the audit to contracting officers. The following is a listing of the applicable *Government Auditing Standards* for reporting of audits.

- GAS 5.20 and 5.25 include requirements for reporting noncompliances with regulations and contract terms.¹³
- GAS 2.24b requires that when the auditors are unable to comply with a *Government Auditing Standards* requirement due to a scope limitation (referred to as a “departure”), the auditors include a statement in the report that describes the *Government Auditing Standards* departure.¹⁴
- GAS 5.44a states, in part, that auditors should distribute reports to the officials who required or arranged for the audit.¹⁵

We identified one or more reporting findings for each of the 14 audits. The following reporting findings were common among the 14 audits.

- In 4 audits, the auditors did not communicate significant deficiencies in internal controls and noncompliances with regulations and contract terms in accordance with reporting standards. For example, in DCAA Audit No. 01151-2018T23000001, the purpose of the audit was to determine if the forward pricing rate proposal complied with regulations, including the cost accounting standards. During the audit, the auditors identified a potential noncompliance with one of the cost accounting standards, but did not report the potential noncompliance.¹⁶
- In 4 audits, the scope limitations were missing from the audit report. For example, in DCAA Audit No. 01321-2018V17900002, the auditors examined direct and indirect costs charged on a specific task order to determine if the costs complied with

¹³ The GAS 5.20 requires auditors to report significant deficiencies and material weaknesses in internal controls and material noncompliances. The GAS 5.20 requirement was moved to section 7.44a of the 2018 *Government Auditing Standards*. The GAS 5.25 requires auditors, in part, to report less than material noncompliances that warrant attention. The GAS 5.25 requirement was moved to sections 7.45 and 7.46 of the 2018 *Government Auditing Standards*.

¹⁴ A scope limitation limits the applicability of the audit report because of the auditors’ inability to obtain sufficient, appropriate audit evidence in accordance with *Government Auditing Standards*. The GAS 2.224b requirement was moved to section 2.17b of the 2018 *Government Auditing Standards*.

¹⁵ The GAS 5.44a requirement was moved to section 7.69 of the 2018 *Government Auditing Standards*.

¹⁶ Cost accounting standards consist of 19 standards promulgated by the Cost Accounting Standards Board designed to ensure uniformity and consistency in the measurement, assignment, and allocation of costs to contracts with the Government.

contract terms. The indirect costs are typically examined in a separate audit as part of the DCAA audit of the contractor's annual indirect cost rate proposal. However, the separate audit of the indirect cost rate proposal had not been completed when the auditors issued their report for DCAA Audit No. 01321-2018V17900002. Therefore, the auditors were unable to make a definitive conclusion on the indirect costs and, in accordance with GAS 2.24b, they should have included a scope limitation in the report for DCAA Audit No. 01321-2018V17900002 to reflect that the audit opinion was subject to change based on the subsequent audit results of the indirect cost rate proposal. The DCAA should evaluate the significance of the missing scope limitations in the four audits and determine if the reports can still be relied upon.

- In 3 audits, the auditors did not distribute the report to all officials who required or arranged for the audit. For example, in DCAA Audit No. 04981-2018E17900003, the auditors did not distribute the audit report to two DoD contracting officers who specifically requested a copy of the audit report during initial communication and coordination. The DCAA field audit offices that issued the three reports should send the reports to the required officials who did not receive the audit reports.

The DCAA Took Corrective Actions on Prior Peer Review Recommendations for Reporting

The DCAA took corrective actions to address prior peer review recommendations for reporting findings. In Report No. DODIG-2018-028, the DoD OIG reported that in 8 of 67 audits (12 percent) the DCAA did not report pertinent information or scope limitations.¹⁷ The DoD OIG recommended that the DCAA reemphasize through training or other means the importance of reporting scope limitations and pertinent information when the auditors disclaim an opinion. The DCAA created training course AUD104, "Developing an Effective Audit Report," that was optional for new auditors. The DCAA also updated sections of the DCAA Contract Audit Manual involving disclaimer of opinion reports in October 2016. However, the corrective actions were not fully effective in improving the reporting of scope limitations. All 60 audits we selected for this review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the corrective actions. Despite the corrective actions, the results of this review reflect that 14 of 60 audits (23 percent) had reporting findings. Based on the results of our current review, the DCAA still needs to perform additional steps to ensure that auditors include scope limitations in the audit report. DCAA training course AUD104 offers comprehensive training on how to comply with reporting standards, but the course is not required for all auditors. Therefore, the DCAA should require all auditors take comprehensive training on how to comply with reporting standards, such as training course AUD104, "Developing an Effective Audit Report."

¹⁷ Report No. DODIG-2018-028, "External Peer Review on the Defense Contract Audit Agency System Review Report," November 17, 2017.

Auditors Stated That They Did Not Need to Report the Noncompliances and Scope Limitations to the Contracting Officers for 8 Audits

For 8 of the 14 audits with reporting findings, the auditors stated that they did not need to report the noncompliances and scope limitations to the contracting officers. For example, in DCAA Audit No. 01151-2018T23000001, the auditors stated that they did not report on a potential noncompliance with the cost accounting standards that would cause costs to be misstated because the noncompliance was not material. According to FAR subpart 30.6, the contracting officer is responsible for making a determination of compliance with cost accounting standards after receiving a report from an auditor.¹⁸ Without being notified of the potential noncompliance with cost accounting standards, the contracting officer is unable to make a determination of whether the cost is noncompliant or to make contract adjustments if the noncompliance is determined to be material to the contract. Additionally, FAR subpart 30.6 states that even if the noncompliance is determined to be immaterial, the contracting officer is required to inform the contractor in writing that the noncompliance should be corrected. If it is not, the Government reserves the right to make the appropriate contract adjustments should it become material in the future. If the DCAA notified the contracting officer of the potential noncompliance, the contracting officer would be able to make a determination and notification in accordance with FAR subpart 30.6.

In another example, in DCAA Audit No. 01571-2015H10100011, the auditors did not include a scope limitation even though they did not perform the mandatory annual audit requirement related to proposed direct material costs.¹⁹ The auditors told us that the scope limitation was not necessary because the proposed direct material costs were similar to services, which the auditors stated were exempt from the mandatory annual audit requirement. However, the auditors' statement is incorrect because the DCAA mandatory annual audit requirement also applies to services purchased by the contractor.

We reviewed DCAA's related policies and procedures for appropriately reporting noncompliances and scope limitations to the contracting officer and we determined that the policies are comprehensive and consistent with the *Government Auditing Standards*. The DCAA should issue a memorandum that emphasizes specific procedures to perform for reporting noncompliances and scope limitations.

¹⁸ FAR Subpart 30.6, "CAS Administration," governs the contracting officer's administration of the Cost Account Standards, such as making required determinations and findings.

¹⁹ According to DCAA Contract Audit Manual 6-105, mandatory annual audit requirements are audit procedures that are required to be performed to comply with the *Government Auditing Standards*. The requirements consist of audit procedures that must be performed on an annual basis, such as reconciliations of contractor-incurred costs, review of the contractor's tax returns, and physical observations of contractor employees and purchased material.

Contracting Officers Assigned to 14 of the Reports Could Accept Costs Without Having Pertinent Information

As a result of the reporting deficiency, contracting officers responsible for acting on 14 of the 60 reports could misinterpret the findings and take unintended actions, such as negotiating and accepting costs, without having all the pertinent information regarding the audit. If auditors do not report all scope limitations, the contracting officers may assume that costs were audited when they were not. Additionally, if auditors do not report noncompliances that warrant attention, the contracting officers do not have all of the pertinent information they need to administer the contract on behalf of the Government. Therefore, the DCAA should evaluate the significance of the noncompliances that were not reported and determine the need to communicate noncompliances identified during the audit.

Management Comments on the Deficiency and Our Response

Defense Contract Audit Agency Comments

The DCAA Director agreed with the overall reporting deficiency. However, the Director disagreed that all of the reporting findings rose to the level of an overall system deficiency.

Our Response

We disagree with the DCAA Director's statement that all of the findings do not rise to the level of a system deficiency. Our review disclosed several reporting findings among 14 of the 60 audits we selected (23 percent), where the auditors did not comply with reporting standards. These findings demonstrate a pattern and pervasiveness that reflect the need for the DCAA to improve its reporting of audit results. After reviewing the nature of the findings in the 14 audits and their importance to the DCAA system of quality control taken as a whole, we concluded that the findings could create a situation in which the organization would not have reasonable assurance of conforming with applicable reporting requirements in the *Government Auditing Standards*. Therefore, the reporting findings collectively rise to the level of a system deficiency.

Recommendations, Management Comments, and Our Response

Recommendation 5

We recommend that the Defense Contract Audit Agency Director:

- a. Evaluate the significance of the missing noncompliances on the reported opinion for Audit Report Numbers 01151-2018T23000001, 03241-2016S10100006, 03931-2015D10100009, and 07281-2014C10100014 and:
 1. determine if the need exists to communicate the noncompliances in writing to the report recipients, and
 2. document the determination and communication, if needed, in the working papers.
- b. Evaluate the significance of the missing scope limitations in Audit Report Numbers 01191-2018G17200001, 01321-2018V17900002, 01341-2015P10100019, and 01571-2015H10100011 and determine if the reports can still be relied upon.
- c. Issue a memorandum to the auditors to emphasize the requirements in the Defense Contract Audit Agency Contract Audit Manual for reporting noncompliances and scope limitations.
- d. Send DCAA Audit Report Numbers 01331-2019H17740002, 01341-2015P10100019, and 04981-2018E17900003 to the required officials who did not receive the audit reports from the Defense Contract Audit Agency or other officials.
- e. Require all Defense Contract Audit Agency auditors to complete comprehensive training on complying with reporting standards, such as AUD104, “Developing an Effective Audit Report.”

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation. The DCAA plans to complete Recommendations 5.a, 5.b, 5.c, and 5.d within 90 days of issuance of the DoD OIG final System Review Report. For Recommendation 5.e, the DCAA plans to develop comprehensive training on complying with the reporting standards because the Director stated that DCAA training course, AUD104, “Developing an Effective Audit Report,” does not include sufficient information to ensure that DCAA auditors comply with the *Government Auditing Standards* reporting standards. The DCAA plans to develop the training by September 30, 2021, and to deliver the training 6 months after development.

Our Response

The DCAA Director’s comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close recommendations 5.a and 5.b once we verify that the DCAA has evaluated the four audit reports with missing

noncompliances and the four audit reports with missing scope limitations and determined whether it would serve a useful purpose to reissue the audit reports. We will close Recommendation 5.c after we verify that the DCAA has issued a memorandum to the auditors on reporting noncompliances and scope limitations. We will close Recommendation 5.d once we verify that the DCAA has sent the three audit reports to the required contracting officers who did not receive the audit reports. Lastly, we will close Recommendation 5.e once we verify that the DCAA has provided comprehensive training to all auditors on complying with reporting standards.

Deficiency 4. The DCAA Auditors for 14 Audits Did Not Prepare Audit Documentation in Sufficient Detail

For 14 of 60 audits (23 percent), the DCAA auditors did not prepare audit documentation in sufficient detail to understand the nature and the extent of the work performed. GAS 5.16a requires auditors to prepare audit documentation in sufficient detail to enable an experienced auditor with no connection to the audit to understand from the documentation the nature, timing, extent, and results of procedures performed, the evidence obtained, and the conclusions reached.²⁰

We identified one or more documentation findings for each of the 14 audits. The following documentation findings were common among the 14 audits:

- In 12 audits, auditors did not document the impact of procedures they planned and performed to satisfy the audit objective. For example, in DCAA Audit No. 04981-2018E17900001, the audit objective was to determine if the costs complied with contract terms. During planning, the auditors attempted to reconcile subcontract costs to the accounting records, but the reconciliation identified differences. The auditors updated the scope of the audit to follow up on the differences. The contractor provided supporting documentation to the auditors to explain the differences, but the auditors did not adequately document their analysis of the supporting documentation or whether the reconciliation differences impacted compliance with the contract terms.
- In 9 audits, auditors did not document the rationale for significant judgments they made. For instance, in DCAA Audit No. 01321-2018V17900002, the auditors planned to perform testing to determine the reliability of scanned documents. The auditors did not complete the planned testing and did not document the rationale for not completing planned testing. The auditors told us that they did not complete this planned testing because no scanned documents were provided.
- In 7 audits, auditors did not accurately describe the procedures they performed and evidence they obtained. For example, in DCAA Audit No. 04981-2018E17900003, the auditors tested the accuracy of the contractor's employee listing of direct employees.

²⁰ The GAS 5.16a requirement was moved to section 7.34 of the 2018 *Government Auditing Standards*.

The auditors incorrectly documented that they used employee listings to verify the employees' existence when they actually used resumes and personnel records.

- In 6 audits, auditors did not document the procedures they performed to test for compliance with the criteria used to satisfy the objective of the audit. For instance, in DCAA Audit No. 01161-2015K10100002, the auditors tested indirect executive compensation costs to determine that the costs were charged to the contractor's segments in accordance with the contract terms, which was the criteria used to satisfy the objective of the audit. The auditors documented their conclusion that the costs were charged to the segments in accordance with the contract terms. However, the auditors did not document the procedures they performed to arrive at that conclusion.
- In 4 audits, auditors did not document the scope of the audit in the summary risk assessment working paper. For example, in DCAA Audit No. 07281-2014C10100014, the auditors documented in the summary risk assessment working paper that they planned to reconcile proposed indirect costs to supporting documentation. However, the auditors determined that the reconciliation was not necessary. We agree that the reconciliation was not necessary because indirect costs were not included in the scope of audit. However, the auditors did not document the change in the summary risk assessment working paper to reflect this change in scope.
- In 3 audits, auditors did not adequately document the performance of reconciliations. For instance, in DCAA Audit No. 01211-2015C10100018, the auditors concluded that all billed labor hours reconciled to the books and records. However, the working papers reflect a 545 hour difference between the hours billed and the books and records; the auditors should have acknowledged and documented this difference in the conclusion section of the working papers. Additionally, the auditors did not document the reconciliation of 1,279 billed labor hours.

The DCAA Took Corrective Actions on Prior Peer Review Recommendations for Documentation

The DCAA took corrective actions to address prior peer review recommendations for documentation findings. In Report No. DODIG-2018-028, the DoD OIG reported that in 9 of 67 audits (13 percent), the auditors' documentation taken as a whole was insufficient to understand the nature, timing, extent, or results of work performed by the DCAA auditors.²¹ The DoD OIG recommended that the DCAA improve quality control procedures and provide refresher training on the documentation requirement in the *Government Auditing Standards*. From October 2017 through March 2018, the DCAA conducted training on documenting working papers for all audit staff. The training provided the auditors with references to applicable auditing standards and examples of proper working paper documentation.

²¹ Report No. DODIG-2018-028, "External Peer Review on the Defense Contract Audit Agency System Review Report," November 17, 2017.

All 60 audits we selected for this review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the DCAA corrective actions. Despite the corrective actions, the results of this review reflect that 14 of 60 audits (23 percent) of the selected audits had documentation findings. Based on the results of the current peer review, the DCAA still needs to perform additional steps to ensure that auditors prepare adequate documentation.

We Attributed the Documentation Deficiency to Errors and Omissions

We determined that most documentation findings were caused by a combination of errors and omissions by the auditors.

- In 13 audits, documentation findings were caused by auditor errors. For example, a documentation deficiency in DCAA Audit No. 01161-2015K10100002 resulted when auditors included the wrong sampling plan in the working papers. The sample plan stated that the auditors selected 86 items for testing. However, the auditors actually selected 47 items for testing. We also noted that the description of the total amount and number of transactions that made up the universe was incorrect.
- In 9 audits, documentation findings were caused by auditor omissions. For example, in DCAA Audit No. 02351-2018U21000004, the auditors omitted an update to a planning working paper for changes to planned testing due to materiality. The planning working paper stated that direct labor would be tested. However, the auditors later determined that direct labor would not be tested because the direct labor did not meet the auditor's materiality threshold.

We reviewed DCAA's related policies and procedures for documentation and we determined that the policies are comprehensive and consistent with the *Government Auditing Standards*. The DCAA should provide additional training to auditors to emphasize specific policies and procedures for complying with the documentation standards.

We Were Unable to Determine if Sufficient Evidence Was Obtained Without Holding Discussions With the DCAA Auditors in 14 Audits

As a result of the lack of sufficient documentation for 14 of 60 audits, we were unable to determine from the audit working papers if the auditors obtained sufficient, appropriate evidence to support conclusions used as a basis for their report opinion. Therefore, we had to hold discussions with the DCAA auditors to determine the nature, timing, extent, and results of procedures performed, the evidence obtained, and the conclusions reached. When available, we also reviewed supporting documentation that was not included in the audit working papers to determine if the auditors obtained and reviewed sufficient evidence. Based on our discussions with the auditors and our review of the additional documentation, we concluded that the auditors for the 14 audits had obtained sufficient, appropriate evidence to support the conclusions they reached. However, in accordance with GAS 5.16a, the audit working papers

should have fully supported the conclusions reached without the need to hold discussions or obtain additional documentation.

Recommendations, Management Comments, and Our Response

Recommendation 6

We recommend that the Defense Contract Audit Agency Director provide training to audit staff on the expectations for documenting the work performed in sufficient detail and emphasize:

- a. Procedures planned to satisfy the audit objective.**
- b. Rationale for significant judgments made.**
- c. Procedures performed and evidence obtained to support the conclusions reached.**
- d. Procedures performed to test for compliance with the subject matter criteria.**
- e. Scope of the audit in the summary risk assessment working paper.**
- f. Procedures performed to reconcile the contractor-provided data to supporting documentation.**

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation and plans to develop the training by September 30, 2021, and to deliver the training 6 months after development.

Our Response

The DCAA Director's comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DCAA has provided training to all DCAA auditors on the expectation of documenting the work performed in sufficient detail.

Deficiency 5. The DCAA Supervisors for Seven Audits Did Not Perform Reviews That Complied With Standards

For 7 of 60 audits (12 percent), the DCAA supervisors did not perform reviews that complied with standards. The supervisor reviews were not timely and the supervisors did not effectively provide guidance or monitor the audit to ensure that the audit was performed in accordance with standards. GAS 5.01 requires that auditors comply with the AT-C.

AT-C 105.33 states that leadership has responsibility for the overall quality of the audit.²² The responsibility includes ensuring:

- the audit is appropriately planned, performed, and supervised to comply with standards,
- reviews are performed in accordance with DCAA policies and procedures,
- adequate audit documentation is maintained in the audit working papers package, and
- consultation on difficult matters is taken.

In the 19 audits with evidence findings discussed in Deficiency 1, ineffective supervisory reviews contributed to the findings, but not every audit with an evidence finding also rose to the level of a supervisory review deficiency. Supervisory reviews may not detect all *Government Auditing Standards* noncompliances and ensure they are corrected prior to report issuance. However, for the audits where we identified a supervisory review deficiency, the supervisory review as a whole was ineffective in preventing or detecting *Government Auditing Standards* noncompliances. The supervisors of the seven audits did not prevent or detect and ensure the auditors corrected several noncompliances with *Government Auditing Standards* in the areas of planning, documentation, evidence, and reporting. Examples include the following two audits.

For example, in DCAA Audit No. 01431-2013C10100022, the audit did not comply with the *Government Auditing Standards* in planning, documentation, and evidence that the supervisor did not detect and did not ensure that the auditors corrected. The supervisor did not ensure that the auditors completed all of the required risk assessment procedures or documented the reason why some of the procedures did not need to be performed. Furthermore, the supervisor did not document approval of significant changes to the audit scope prior to the auditors' performance. The supervisor did not ensure that the auditors documented the performance of reconciliations for all significant contracts. Finally, the supervisor did not ensure that the auditors obtained sufficient, appropriate evidence to opine that the proposed direct costs complied with contract terms.

In another example, in DCAA Audit No. 01571-2015H10100011, the auditors did not comply with the *Government Auditing Standards* in the areas of planning, documentation, evidence, and reporting, but the supervisor did not detect the noncompliances or ensure that the auditors corrected them. During the audit, three different acting supervisors were assigned. One of the acting supervisors provided the auditor with appropriate working paper comments to correct planning and documentation issues. However, the second level supervisor signed off on the working papers even though the auditor did not take action on the acting supervisor's comments. The DCAA should remind all levels of supervisors in writing to document their guidance and ensure that supervisory review comments have been addressed by auditors.

²² For examination and agreed-upon procedures audits, we used AT-C Section 105, *Concepts Common to All Attestation Engagements*.

The DCAA Took Corrective Actions That Were Not Effective in Addressing Previously Reported Supervisory Review Findings

The DCAA took corrective actions that were not effective in addressing previously reported supervisory review findings. In Report No. DODIG-2018-028, the DoD OIG reported that 6 of 67 audits (9 percent) had inadequate or ineffective supervisory reviews that impacted the accomplishment of audit objectives.²³ The DoD OIG recommended that the DCAA assess and improve quality assurance procedures to assist supervisors in their reviews of audits. To improve quality assurance procedures, the DoD OIG recommended that the DCAA consider a quality control checklist for supervisors. In addition, the DCAA peer review report issued in 2014 also recommended that the DCAA consider developing a quality control checklist for supervisors to ensure compliance with the *Government Auditing Standards*.²⁴

The DCAA did not implement a quality control checklist for supervisors in response to either prior peer review recommendation. Instead, the DCAA required supervisors to sign a form, referred to as the “Statement on Sufficiency of Evidence,” which states, “Based on my review of this assignment, the signature below indicates that in my professional judgment there is sufficient appropriate audit evidence that supports the significant judgments and the conclusion reported.” In 2018, the DCAA implemented new working paper software called CaseWare, which requires supervisors to approve working papers and provide working paper feedback before the audit working papers can be prepared for long-term storage.

All 60 audits we selected for this review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the corrective actions. Despite the corrective actions, 7 of 60 (12 percent) audits we selected in this review had inadequate or ineffective supervisory reviews. Based on the current results, the DCAA still needs to perform additional steps to help ensure effective supervisory reviews of audits. Requiring supervisors to sign a statement of sufficiency of evidence at the conclusion of the audit and sign the working papers before they can be archived has not ensured that adequate supervision exists throughout the performance of the audit. As stated in Recommendation 3, the DCAA should implement a tool, such as a quality control checklist, that supervisors use to help ensure auditors comply with the *Government Auditing Standards*.

Seven Audits Did Not Meet Other Significant Government Auditing Standards

As a result of the lack of sufficient supervisory reviews, 7 of 60 audits did not comply with the *Government Auditing Standards* in significant areas such as planning, documentation, evidence, and reporting. In addition to developing a checklist as discussed in Recommendation 3, the DCAA should provide training to the supervisors of the seven audits on the standards for

²³ Report No. DODIG-2018-028, “External Peer Review on the Defense Contract Audit Agency System Review Report,” November 17, 2017.

²⁴ DoD OIG Report, “DCAA Peer Review: System Review Report,” August 21, 2014.

supervision published in the *Government Auditing Standards*, including the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements, which is incorporated in the *Government Auditing Standards* by reference.

Management Comments on the Deficiency and Our Response

Defense Contract Audit Agency Comments

The DCAA Director disagreed that the findings represent systemic issues that would rise to the level of a separate supervision deficiency. In addition, the DCAA Director provided specific comments on one of the seven reported audits (Audit No. 09851-2014A10100005). See Enclosure 4, “Management Comments on Selected Audits and Our Response,” for the management comments on Audit No. 09851-2014A10100005.

Our Response

We disagree with the DCAA Director’s comment that the findings do not rise to the level of a separate supervision deficiency. We determined that the findings warranted a separate supervision deficiency based on the criteria established by the CIGIE Guide. The findings demonstrated a pattern and pervasiveness that reflect the need for improving the reliability of the DCAA system of quality control and reporting in compliance with professional standards. Based on our statistical sample of 60 audits, we determined that the supervision for 7 audits (12 percent) was not adequate to ensure that the audits were appropriately planned, performed, and supervised to comply with the *Government Auditing Standards*. See Enclosure 4, “Management Comments on Selected Audits and Our Response,” for our response to specific management comments on Audit No. 09851-2014A10100005.

Recommendations, Management Comments, and Our Response

Recommendation 7

We recommend that the Defense Contract Audit Agency Director remind supervisors in writing of the need to document auditor guidance and feedback and to ensure that the feedback is sufficiently addressed by auditors.

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation and plans to communicate to all supervisors the requirement to document guidance and feedback in all audits and to provide training to all auditors to cover the results of the peer review. The DCAA Director plans to develop the training by September 30, 2021, and to deliver the training 6 months after development.

Our Response

The DCAA Director's comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DCAA has communicated the requirements to appropriately document audit guidance and feedback from supervisory reviews, and provided training to all auditors.

Deficiency 6. The DCAA Auditors for Six Audits Did Not Exercise Professional Judgment

For 6 of 60 audits (10 percent), the DCAA auditors did not use appropriate professional judgment. The *Government Auditing Standards* require that auditors use professional judgment in performing their duties. Critical requirements related to professional judgment include the following:

- GAS 3.60 states that auditors must use professional judgment in planning and performing audits and in reporting the results.²⁵
- GAS 3.61 states that professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles.²⁶
- GAS 3.64 states that using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.²⁷

We found multiple evidence, planning, reporting, documentation, or supervision findings among the six audits, leading us to conclude that the audit staff did not exercise effective professional judgment when conducting the audits. For example, in DCAA Audit No. 07281-2014C10100014, the objective of the audit was to determine if the contractor's incurred costs proposal complied with contract terms. The auditors did not review all significant contracts to identify contract terms related to the contractor's incurred costs or plan appropriate procedures for testing compliance with contract terms. As a result, the auditors did not identify all relevant contract terms to satisfy the audit objective.

In addition, the auditors performed analytical procedures to determine if the contractor's profit margins for time and material contracts were within a reasonable range but did not obtain sufficient evidence to support their conclusions. For time and material contracts, labor costs are billed at rates that include indirect costs and profit, and material costs are billed at actual costs. The auditors compared the incurred costs to billed costs for time and material contracts. Significant differences between incurred costs and billed costs for time and material contracts

²⁵ The GAS 3.60 requirement was moved to Section 3.109 of the 2018 *Government Auditing Standards*.

²⁶ The GAS 3.61 requirement was moved to Section 3.110 of the 2018 *Government Auditing Standards*.

²⁷ The GAS 3.64 requirement was moved to Section 3.113 of the 2018 *Government Auditing Standards*.

may indicate that the Government was billed at excessive labor rates. Therefore, unreasonable profit margins increase the risk of material misstatement with the proposed costs due to unallowable costs. The auditors identified potentially unreasonable profit margins. The auditors discussed the potentially unreasonable profit margins with the contractor and accepted the contractor's explanations without obtaining or examining supporting documentation. We held discussions with the auditors to determine why they did not obtain evidence to substantiate the contractor's explanations. The auditors told us that they did not need to validate the explanations and that, based on the team's knowledge and experience with the contractor, they determined the contractor responses were sufficient. While we agree that knowledge and experience with the contractor helps the auditors determine if the contractor's explanations are reasonable, explanations need to be substantiated with supporting evidence to determine the accuracy of the contractor's explanations.

Lastly, the auditors examined \$521 million in adjusting journal entries. They examined the adjusting journal entries to determine if any unusual or significant adjusting journal entries complied with the contract terms. To determine whether adjusting journal entries comply with contract terms, the auditors planned to examine the rationale for the adjusting journal entries and to review any documentation that supports the rationale for the adjusting journal entries. However, the auditors did not evaluate the rationale for all of the adjusting journal entries in the sample to determine if the rationale complied with contract terms.

The auditors did not achieve the planned audit coverage. The auditors used a non-statistical sample to identify adjusting journal entries to test based on the significance of the entries. The auditors planned an audit coverage of 67 percent of adjusting journal entries. However, the auditors did not test all transactions included in the sample. We asked for an explanation of the sample that was tested. Based on the sample items the auditors stated were tested, we calculated an audit coverage of 44 percent of adjusting journal entries. In the same audit, we also identified findings with planning, documentation, evidence, reporting, and supervision, which led us to conclude that the audit staff did not exhibit effective professional judgment.

The DCAA Took Corrective Actions on Prior Peer Review Recommendations for Professional Judgment

The DCAA took corrective actions to address prior peer review recommendations for professional judgment findings. In Report No. DODIG-2018-028, the DoD OIG reported that in 4 of 67 audits (6 percent) the audit staff did not use appropriate professional judgment.²⁸ The DoD OIG recommended that the DCAA provide training on exercising professional judgment and complying with the *Government Auditing Standards* in areas including evidence, planning, reporting, and documentation. From January 2018 through April 2018, the DCAA conducted training on exercising professional judgment. The training provided the auditors with references to applicable

²⁸ Report No. DODIG-2018-028, "External Peer Review on the Defense Contract Audit Agency System Review Report," November 17, 2017.

auditing standards and to DCAA policy. In addition, the auditors were provided with the specific issues identified in the 4 audits related to the previous professional judgment deficiency. Despite the corrective actions, the current peer review identified that in 6 of 60 audits (10 percent), the audit staff did not use appropriate professional judgment.

All 60 audits we selected for review were completed from July 1, 2018, through June 30, 2019, which was after the completion of the corrective actions. Based on the results of our current peer review, the DCAA still needs to take additional steps to help ensure that audit staff use professional judgment when performing audits. The DCAA needs to communicate to the audit staff the requirements and expectations for exercising reasonable care. The professional judgment training that the DCAA provided in response to the prior peer review could have been more effective by including exercises that use audit scenarios to allow the audit staff to practice decision-making and to apply the training concepts. The DCAA should provide training to the audit staff that incorporates audit scenarios. In addition, the DCAA should remind all audit staff of the importance of exercising due professional care in planning and performing the audit as well as reporting the results.

Users of the 6 Reports Could Not Rely on the Reported Conclusions

As a result of the findings, users of the 6 of the 60 reports with professional judgment findings could not rely on the reported conclusions. In 5 of the 6 audits with professional judgment findings, the auditors did not plan the engagement to address the risk of material misstatement with the audit subject matter. Additionally, in all 6 audits with professional judgment findings, the auditors did not obtain sufficient evidence to support the findings and conclusions in the audit report. If the auditors performed additional procedures to plan and execute the audit in accordance with auditing standards, they may have performed more appropriate and sufficient tests and obtained additional evidence that could have impacted the results of the audit. Therefore, the DCAA should determine if the 6 audit reports need to be rescinded.

Management Comments on the Deficiency and Our Response

Defense Contract Audit Agency Comments

The DCAA Director disagreed that the findings rise to the level of a reportable deficiency within DCAA's quality control system. The DCAA Director agrees with the findings in five of the six audits identified as lacking professional judgment. However, the DCAA Director does not believe that the findings in this area are pervasive as defined in the CIGIE Guide, Reporting the External Peer Review Results. The DCAA Director provided specific comments for one of the six audits, Audit No. 09851-2014A10100005. See Enclosure 4, "Management Comments on Selected Audits and Our Response," for specific management comments on Audit No. 09851-2014A10100005.

Our Response

We disagree with the DCAA Director's comments. Of the 60 audits we statistically sampled, 6 audits (10 percent) contained multiple evidence, planning, documentation, reporting, or supervision findings. The findings demonstrate a pattern and pervasiveness of issues that reflect the need for improving the reliability of DCAA audits. After reviewing the nature of the findings in six audits and their importance to the DCAA system of quality control taken as a whole, we concluded that the findings could create a situation in which the organization would not have reasonable assurance of conforming with applicable professional judgement requirements in the *Government Auditing Standards*. Therefore, the findings collectively rise to the level of a reportable deficiency. See Enclosure 4, "Management Comments on Selected Audits and Our Response," for our response to the management comments on Audit No. 9851-2014A10100005.

Recommendations, Management Comments, and Our Response

Recommendation 8

We recommend that the Defense Contract Audit Agency Director provide training to audit staff that incorporates scenario-based learning on Sections 3.109, 3.110, and 3.113 of the 2018 Government Auditing Standards requirements for exercising professional judgment and for adhering to the key concepts of planning, documentation, evidence, and reporting.

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation and plans to develop the training by September 30, 2021, and to deliver the training 6 months after development.

Our Response

The comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that training on *Government Auditing Standards* requirements for exercising professional judgment was provided to all auditors.

Recommendation 9

We recommend that the Defense Contract Audit Agency Director:

- a. Conduct and document a review of the six audits to determine whether DCAA Audit Report Numbers 01161-2015K10100002, 01431-2013C10100022, 01571-2015H10100011, 03401-2016E19410001, 07281-2014C10100014, and 09851-2014A10100005 should be rescinded or revised.**
- b. Remind all audit staff in writing of the importance of exercising due professional care in planning and performing the audit as well as reporting the results.**

Defense Contract Audit Agency Comments

The DCAA Director agreed with the recommendation. The Director stated that after a review of the six audits, field offices would coordinate with the customer to determine if a supplement to the audit would be beneficial. Additionally, the DCAA plans to communicate to all audit staff the importance of exercising due professional care during the training of the results of the peer review.

Our Response

The comments addressed the specifics of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close Recommendation 9.a once we verify that the DCAA has reviewed the audits and determined whether to rescind or revise the audit reports. We will close Recommendation 9.b once we verify that the DCAA has communicated to all audit staff the importance of exercising due professional care.

As is customary, we have issued a Letter of Comment dated March 5, 2021, that sets forth findings we did not consider to be of sufficient significance to affect our opinion expressed in this report. If you have any questions or would like to meet to discuss the review, please contact Mr. Mark Dixon at (703) 604-8739, or email mark.dixon@dodig.mil. We appreciate the cooperation and assistance we received during the peer review.



Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

Enclosure 1

Scope and Methodology

We conducted this peer review from April 2019 through November 2020 in accordance with the *Government Auditing Standards* and the Council of the Inspectors General (CIGIE) on Integrity and Efficiency Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General (the CIGIE Guide). These standards require that we obtain an understanding of the reviewed organization’s system of quality control and conclude whether:

- the system is designed appropriately to ensure compliance with the *Government Auditing Standards*; and
- the organization is complying with the *Government Auditing Standards* and internal policies and procedures.

Table 1 depicts the DCAA organizational structure with locations for the headquarters, the three regions, the Field Detachment for classified audits, and the four CADs for seven large defense contractors.

Table 1. The DCAA Organizational Structure and Locations as of January 22, 2021

Organizational Structure	LOCATION
Headquarters	Fort Belvoir, Virginia
Regions:	
Western Region	La Palma, California
Central Region	Irving, Texas
Eastern Region	Smyrna, Georgia
Corporate Audit Directorates:	
Raytheon, General Dynamics, and BAE (RGB)	Lowell, Massachusetts
Northrop Grumman	McLean, Virginia
Boeing, Honeywell	Hazelwood, Missouri
Lockheed Martin	Fort Worth, Texas
Field Detachment	Reston, Virginia

Source: The DCAA.

This peer review covered the 3-year period from July 1, 2016, through June 30, 2019. We tested compliance with the DCAA system of quality control to the extent we considered appropriate. We used the CIGIE appendixes and procedures in the CIGIE Guide to conduct the following tests.

Policies and Procedures (CIGIE Guide Appendix A)

We reviewed quality control procedures used by the DCAA to help ensure compliance with the *Government Auditing Standards*, including the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements, which is incorporated in the *Government Auditing Standards* by reference. We requested that the DCAA representatives complete section 1 of the CIGIE Guide Appendix A, Policies and Procedures, and provide references to and a copy of relevant policies and procedures. We recorded our observations of DCAA's compliance with *Government Auditing Standards* in section 2 of Appendix A.

Adherence to General Standards (CIGIE Guide Appendix B)

We tested DCAA's compliance with the *Government Auditing Standards* general standards, including independence, competence, and quality control and assurance at the organizational level. We randomly selected a statistical sample of 43 of the 4,111 DCAA auditors who were employed by the DCAA as of May 6, 2019. In selecting the statistical sample, we used a 90-percent confidence level, a 10-percent expected error rate, and a 7.5-percent expected precision rate. We reviewed training records of the 43 selected DCAA auditors to determine if the selected auditors obtained the required number of continuing professional education hours and to determine whether the auditors were competent. For those same employees, we reviewed documentation of independence to determine if the DCAA met the *Government Auditing Standards* requirements for independence documentation.

Additionally, we selected a non-statistical sample of 8 of 113 completed audits which were subject to DCAA internal quality assurance review from July 1, 2018, through May 3, 2019. In selecting the eight completed audits, we selected one audit from each of the three DCAA regions, the four DCAA CADs, and the DCAA Field Detachment. We evaluated the eight audits to determine the adequacy and comprehensiveness of the reviews. We recorded our observations in the CIGIE Guide's Appendix B, Checklist for Review of Adherence to General Standards.

Attestation Engagements (CIGIE Guide Appendix D)

Between July 1, 2018, and June 30, 2019, the DCAA performed only attestation engagement type audits.²⁹ Of the 60 audits reviewed, we selected 59 examination engagements using statistical means and 1 agreed-upon procedures engagement that we selected using non-statistical means. We statistically selected the 59 examination engagements from a universe of 3,616 examination engagements that the DCAA completed from July 1, 2018, through June 30, 2019. In selecting the statistical sample, we used a 90-percent confidence level, a 15-percent expected error rate, and a 7.5-percent expected precision rate. We non-statistically selected the one agreed-upon procedure from nine agreed-upon procedures engagements that the DCAA completed from July 1, 2018, through June 30, 2019, because it had the highest dollar value of the nine engagements. We reviewed

²⁹ The CIGIE Guide refers to attestation engagements and audits collectively as "audits."

the 60 engagements to determine the extent to which the engagements complied with the *Government Auditing Standards*, including the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements, which is incorporated in the *Government Auditing Standards* by reference (see Enclosure 2).

As part of our review of the 60 audits, we conducted site visits to the 19 DCAA field audit offices identified in Table 2.

Table 2. The DCAA Offices We Visited

	DCAA Organization Structure	Field Audit Office	Location
1	Boeing CAD	Boeing IL&T Branch	Hazelwood, Missouri
2	Boeing CAD	Boeing Rotorcraft Branch	Mesa, Arizona
3	Central	Dewitt Sub-Office	Dewitt, New York
4	Central	Great Lakes Branch	Livonia, Michigan
5	Central	New Orleans Branch	New Orleans, Louisiana
6	Central	Northern Ohio Branch	Brecksville, Ohio
7	Eastern	Central Maryland Branch	Columbia, Maryland
8	Eastern	Chesapeake Bay Branch	Columbia, Maryland
9	Eastern	Hampton Roads Branch	Hampton, Virginia
10	Eastern	Herndon Branch	Reston, Virginia
11	Eastern	Reston Branch	Reston, Virginia
12	Eastern	Southeastern Maryland Branch	Greenbelt, Maryland
13	Eastern	Springfield Branch	Alexandria, Virginia
14	Northrop Grumman CAD	NGIS Chandler Resident	Chandler, Arizona
15	Raytheon Company, General Dynamics Corporation, BAE Systems (RGB) CAD	GD Combat Systems Resident	Sterling Heights, Michigan
16	RGB CAD	San Diego Shipyard Branch	Chula Vista, California
17	Western	Colorado Springs Branch	Lonetree, Colorado
18	Western	San Diego Branch	San Diego, California
19	Western	San Fernando Valley Branch	Van Nuys, California

Source: The DoD OIG.

Terminated Audits (CIGIE Risk Assessment Procedure)

We selected a stratified statistical sample of 52 of 3,384 audits that were terminated from May 1, 2018, through April 30, 2019, based on a 90-percent confidence level, a 15-percent expected error rate, and a 7.5-percent expected precision rate. We stratified the universe with the following strata:

1. Audits with 0 hours incurred.
2. Audits with 1-99 hours incurred.
3. Audits with 100-999 hours incurred.
4. Audits with greater than 1,000 hours incurred.

We randomly selected audits within each strata. In total, we reviewed 52 terminated audits in the following strata:

1. Stratum 1 consisted of 12 audits.
2. Stratum 2 consisted of 15 audits.
3. Stratum 3 consisted of 15 audits.
4. Stratum 4 consisted of 10 audits.

We reviewed the 52 terminated audits to determine whether the DCAA auditors documented the results of the work, the reason the audit was terminated, and whether the termination was communicated to the contractor and contracting officer.

Use of Computer-Processed Data

We used computer-processed data during this peer review. The DCAA provided listings of employees and audits from their information systems. We determined the reliability of the listings by verifying the information from the employee listing against personnel records, such as training documentation and college transcripts. We verified the information in the audit listing to audit working papers. We concluded that the information obtained from the DCAA was sufficiently reliable to meet our objectives.

Use of Technical Assistance

We used the assistance of the DoD OIG Quantitative Methods Division in the design of samples of (1) current DCAA employees, (2) terminated audits for the year ended April 30, 2019, and (3) completed audits for the year ended June 30, 2019.

Enclosure 2

Selected Audits

We selected the audits identified in Table 3 for testing compliance with *Government Auditing Standards*.

Table 3. The DCAA Audit Numbers We Selected

	DCAA Audit Number	DCAA Region	DCAA Field Audit Office	DCAA Audit Description
1	01151-2018T23000001	Eastern	Merrimack Valley	Forward Pricing Rate
2	01161-2015K10100002	Eastern	Herndon	Incurred Cost
3	01191-2015K10100002	Eastern	European	Incurred Cost
4	01191-2018G17200001	Eastern	European	Other Claims
5	01211-2015C10100018	Eastern	Central Maryland	Incurred Cost
6	01321-2016M10100013	Eastern	Reston	Incurred Cost
7	01321-2018V17900002	Eastern	Reston	Other Requested Special Audits
8	01331-2019H17740002	Eastern	Springfield	Preaward Accounting Survey
9	01331-2019H17740003	Eastern	Springfield	Preaward Accounting Survey
10	01341-2015P10100019	Eastern	New Jersey	Incurred Cost
11	01361-2019C17740001	Eastern	Northern New England	Preaward Accounting Survey
12	01361-2017M19100003	Eastern	Northern New England	Disclosure Statement Compliance
13	01401-2018G17740002	Eastern	Long Island	Preaward Accounting Survey
14	01431-2013C10100022	Eastern	Southeastern Maryland	Incurred Cost
15	01431-2018P17740006	Eastern	Southeastern Maryland	Preaward Accounting Survey
16	01551-2018A28000001	Eastern	Pratt & Whitney	Agreed-Upon Procedures
17	01571-2015H10100011	Eastern	Chesapeake Bay	Incurred Cost
18	01661-2016C10100021	Eastern	Hampton Roads	Incurred Cost
19	01661-2019J17740001	Eastern	Hampton Roads	Preaward Accounting Survey
20	01661-2018F23000001	Eastern	Hampton Roads	Forward Pricing Rate
21	02351-2018H21000002	RGB CAD	GD Combat Systems	Individual Price
22	02351-2018U21000004	RGB CAD	GD Combat Systems	Individual Price
23	02761-2016A10100001	RGB CAD	San Diego Shipyard	Incurred Cost
24	02801-2018P21000011	RGB CAD	Raytheon IDS	Individual Price
25	02801-2019P21000006	RGB CAD	Raytheon IDS	Individual Price
26	03211-2018P19100001	Central	Nashville	Disclosure Statement Compliance

Table 3. The DCAA Audit Numbers We Selected (cont'd)

	DCAA Audit Number	DCAA Region	DCAA Field Audit Office	DCAA Audit Description
27	03211-2018B19200003	Central	Nashville	Noncompliance with CAS
28	03241-2016S10100006	Central	New Orleans	Incurred Cost
29	03301-2019P21000003	Central	DRS	Individual Price
30	03341-2018A17740004	Central	Huntsville	Preaward Accounting Survey
31	03401-2016E19410001	Central	Northern Ohio	CAS 410 Compliance
32	03401-2017D10100009	Central	Northern Ohio	Incurred Cost
33	03401-2018E21000003	Central	Northern Ohio	Individual Price
34	03441-2014M10100008	Central	Dewitt	Incurred Cost
35	03451-2017D10100001	Central	Ingalls	Incurred Cost
36	03501-2014E10100005	Central	Pennsylvania	Incurred Cost
37	03651-2019D21000001	Central	GE Cincinnati	Individual Price
38	03661-2018G17741003	Central	Great Lakes	Postaward Accounting System
39	03931-2015D10100009	Central	Tampa Bay	Incurred Cost
40	04151-2019B17741001	Western	San Diego	Postaward Accounting System
41	04231-2018D17741001	Western	San Fernando Valley	Postaward Accounting System
42	04261-2017F10100061	Western	Seattle	Incurred Cost
43	04371-2017M10100006	Western	Sierra	Incurred Cost
44	04441-2015W10100004	Western	Pasadena	Incurred Cost
45	04561-2019C19100001	Western	Textron	Disclosure Statement Compliance
46	04631-2019M17740001	Western	Denver	Preaward Accounting Survey
47	04981-2018E17900001	Western	Colorado Springs	Other Requested Special Audits
48	04981-2018E17900003	Western	Colorado Springs	Other Requested Special Audits
49	06861-2018B21000008	Northrop Grumman CAD	NG Redondo Beach	Individual Price
50	06881-2019F11090001	Northrop Grumman CAD	NGIS Chandler	Business System Deficiency
51	07281-2014C10100014	Boeing, Honeywell CAD	Boeing IL&T	Incurred Cost
52	07631-2019T23000001	Boeing, Honeywell CAD	Boeing Corporate	Forward Pricing Rate
53	07821-2018L21000004	Boeing, Honeywell CAD	Boeing Rotorcraft	Individual Price
54	07821-2019D21000001	Boeing, Honeywell CAD	Boeing Rotorcraft	Individual Price
55	09511-2019G21000004	Field Detachment	Longhorn	Individual Price
56	09531-2018C17741002	Field Detachment	Independence	Postaward Accounting System

Table 3. The DCAA Audit Numbers We Selected (cont'd)

	DCAA Audit Number	DCAA Region	DCAA Field Audit Office	DCAA Audit Description
57	09711-2013K10100005	Field Detachment	Shenandoah	Incurring Cost
58	09721-2016B10100003	Field Detachment	Northeast	Incurring Cost
59	09851-2014A10100005	Field Detachment	Bull Run	Incurring Cost
60	09851-2018D17740002	Field Detachment	Bull Run	Preaward Accounting Survey

Source: The DoD OIG.

Enclosure 3

System Review Report Findings

For the 60 audits we selected, Table 4 identifies the system review report findings we found during our testing for compliance with the *Government Auditing Standards*.

Table 4. Findings by DCAA Audit Number

	DCAA Audit Number	System Review Report Findings					
		Evidence	Planning	Reporting	Documentation	Supervision	Professional Judgment
1	01151-2018T23000001			X			
2	01161-2015K10100002	X	X		X	X	X
3	01191-2015K10100002	X					
4	01191-2018G17200001	X		X			
5	01211-2015C10100018	X			X		
6	01321-2016M10100013				X		
7	01321-2018V17900002	X	X	X	X		
8	01331-2019H17740002			X			
9	01331-2019H17740003		X				
10	01341-2015P10100019	X	X	X	X		
11	01361-2019C17740001						
12	01361-2017M19100003						
13	01401-2018G17740002						
14	01431-2013C10100022	X	X		X	X	X
15	01431-2018P17740006						
16	01551-2018A28000001			X		X	

Table 4. Findings by DCAA Audit Number (cont'd)

	DCAA Audit Number	System Review Report Findings					
		Evidence	Planning	Reporting	Documentation	Supervision	Professional Judgment
17	01571-2015H10100011	X	X	X		X	X
18	01661-2016C10100021						
19	01661-2019J17740001						
20	01661-2018F23000001			X			
21	02351-2018H21000002		X		X		
22	02351-2018U21000004		X		X		
23	02761-2016A10100001						
24	02801-2018P21000011		X	X			
25	02801-2019P21000006						
26	03211-2018P19100001						
27	03211-2018B19200003						
28	03241-2016S10100006	X	X	X	X		
29	03301-2019P21000003						
30	03341-2018A17740004						
31	03401-2016E19410001	X		X		X	X
32	03401-2017D10100009	X					
33	03401-2018E21000003	X					
34	03441-2014M10100008						
35	03451-2017D10100001						
36	03501-2014E10100005						
37	03651-2019D21000001						
38	03661-2018G17741003						
39	03931-2015D10100009			X			

Table 4. Findings by DCAA Audit Number (cont'd)

	DCAA Audit Number	System Review Report Findings					
		Evidence	Planning	Reporting	Documentation	Supervision	Professional Judgment
40	04151-2019B17741001						
41	04231-2018D17741001						
42	04261-2017F10100061						
43	04371-2017M10100006						
44	04441-2015W10100004						
45	04561-2019C19100001						
46	04631-2019M17740001						
47	04981-2018E17900001	X	X		X		
48	04981-2018E17900003	X	X	X	X		
49	06861-2018B21000008						
50	06881-2019F11090001						
51	07281-2014C10100014	X	X	X	X	X	X
52	07631-2019T23000001						
53	07821-2018L21000004	X	X		X		
54	07821-2019D21000001	X					
55	09511-2019G21000004						
56	09531-2018C17741002						
57	09711-2013K10100005	X	X				
58	09721-2016B10100003						
59	09851-2014A10100005	X	X		X	X	X
60	09851-2018D17740002		X				
Total		19	17	14	14	7	6

Source: The DoD OIG.

Enclosure 4

Management Comments on Specific Audits and Our Response

The DCAA Director provided comments on specific audits for Deficiencies 2, 5, and 6. Below is a summary of the comments from the DCAA and our response by deficiency and audit number.

Deficiency 2. The DCAA Auditors for 17 Audits Did Not Comply With the Planning Standards

The DCAA Director provided comments on 5 of the 17 audits discussed in Deficiency 2.

1. Audit No. 02801-2018P21000011

Defense Contract Audit Agency Comments

The DCAA Director disagreed with the planning finding and stated that the auditors documented their understanding of the contractor's related internal controls. The Director also stated that the auditors documented that they did not need to add additional audit procedures to the DCAA standard audit program procedures. In addition, the Director stated that the auditors appropriately planned the audit by designing audit procedures to ensure potential noncompliances would be detected.

Our Response

We disagree with the Director's comments that the auditors documented their understanding of contractor's related internal controls. During the audit planning phase, the DCAA auditors identified several potential noncompliances that may have an impact on the audit. However, the auditors did not design procedures to gain an understanding of the contractor's internal controls that would address the risk of the contractor's potential noncompliances identified by the DCAA auditors. For example, the auditors identified a potential noncompliance that the contractor may propose indirect material costs as direct material costs. However, the auditors did not document their understanding of the contractor's applicable internal controls that would prevent the contractor from proposing indirect material costs as direct material costs.

In another instance, the auditors documented that 96 percent of contractors' proposed costs were based on vendor quotes. However, the auditors did not design procedures to understand the contractor's internal controls over vendor quotes to ensure that the quotes are reasonable and that the proposed costs complied with the audit criteria. Without understanding of the contractor's internal controls related to the potential noncompliances, the auditors would not be able to assess the risk of misstatement associated with the potential noncompliances.

2. Audit No. 02351-2018H2100002

Defense Contract Audit Agency Comments

The DCAA Director disagreed with the planning finding that the audit team did not document their understanding of relevant policies and procedures within the audit working papers. The Director stated that the auditors adequately planned the engagement based on their understanding of the audit subject matter and the contractor's internal controls. In addition, the Director stated that the auditors documented:

- their understanding of internal controls of the contractor's accounting, estimating, and purchasing systems applicable to the audit; and
- the policies and procedures applicable to the systems' noncompliances.

Our Response

We disagree that the auditors adequately planned the engagement. We recognize that the auditors documented the contractor's accounting, estimating, and purchasing systems compliance, which are relevant to the audit. However, the auditors did not document their understanding of the internal controls (such as policies and procedures) that were relevant to the audit. For example, the auditors determined that the contractor was responsible for selecting a vendor and establishing price reasonableness for the proposed material costs on a Government contract. However, the auditors did not document their understanding of the contractor's policies and procedures for selecting a vendor and determining that the proposed costs were reasonable.

As a result, the auditors did not comply with AT-C 205.15, which requires the auditor to obtain an understanding of internal controls over the preparation of the subject matter (the contractor's proposal). Without an understanding of the contractor's internal controls related to the reasonableness of proposed sole-source material costs, the auditors were not be able to assess the risk of unreasonable material costs charged to Government contracts.

3. Audit No. 09711-2013K10100005

Defense Contract Audit Agency Comments

The DCAA Director disagreed with the planning finding, stating that the auditors documented the internal controls related to subcontract costs and planned appropriate procedures to test the reasonableness of subcontract costs.

Our Response

We disagree with the Director's comments. We recognize that the auditors documented the internal controls related to managing and administering subcontracts. However, the auditors did not document the internal controls that ensure subcontract costs are reasonable. For example, the auditors did not document the contractor's subcontract selection process, including the performance of cost and price analysis to ensure subcontract costs were

reasonable. As a result, the auditors did not plan or perform procedures to determine if the proposed subcontract costs were reasonable. The procedures that the auditors planned consisted of determining if the subcontract costs were incurred in the correct time period and complied with the subcontract terms. However, the auditors did not document their understanding of the prime contractor's internal controls that ensure subcontract labor rates were reasonable. Without understanding the prime contractor's internal controls related to reasonableness, the auditors did not assess the risk of unreasonable subcontract costs charged to Government contracts.

4. Audit No. 01331-2019H17740003

Defense Contract Audit Agency Comments

The DCAA Director disagreed that the auditors did not plan procedures to address potential fraud indicators identified by the DoD OIG. The Director stated that the auditors planned procedures to address the potential fraud indicators, consisting of:

1. reviewing contractor policies and procedures to determine all hours worked are properly recorded;
2. ensuring that the contractor excluded unallowable costs, including related party transactions; and
3. ensuring that all contractor employees properly charge their time.

Our Response

We disagree with the Director's comments that the planned procedures addressed the following potential fraud indicators we identified:

- One executive (Vice President and Controller) of the contractor is also serving as the Vice President of Finance for another company.
- Both the contractor and the other company are co-located in the same office.
- An employee works from his home in the U.S. Virgin Islands, even though all of the contractor's other employees work from the contractor's office in the District of Columbia area.

The planned procedures listed in the Director's comments did not address the three potential fraud indicators for the following reasons:

1. The planned procedure for reviewing the contractor's timekeeping policies and procedures did not determine how the executive accounted for his time at the both companies. According to the working papers, the executive stated that he spent 100 percent of his time on behalf of the contractor and none on behalf of the other company. However, the auditor did not plan or perform any additional procedures to determine the accuracy of the executive's statement.
2. The planned procedure for determining if the contractor excluded unallowable costs did not include determining if the contractor excluded additional unallowable costs related to the executive, such as rent and utilities for the executive's co-located office space.

3. The planned procedure for determining that contractor employees properly charged their time did not include determining if the employee who worked from the U.S. Virgin Islands properly charged his time. Furthermore, we noted differences between the hours recorded on an employee's timesheet and his hours reflected on the contractor's payroll summary. The auditor did not plan or perform any inquiries on the differences.

Therefore, we concluded that the auditor did not perform sufficient procedures to identify the risk of material misstatement due to the potential fraud indicators or noncompliance with laws or regulations in accordance with AT-C 205.32.

5. Audit No. 09851-2014A10100005

Defense Contract Audit Agency Comments

The DCAA Director disagreed with our finding that the audit team did not document the extent of resources necessary to perform the audit, such as the planned hours estimated to complete the risk assessment. The Director stated that resources were sufficient to complete the audit and AT-C 205.12d requires the auditors to determine the nature, timing, and extent of resources necessary to perform the audit. The Director added that resources are not solely limited to estimating the number of planned hours for the risk assessment phase of the audit. They also include the skill set of the audit team to ensure the audit is properly performed in accordance with *Government Auditing Standards*. Therefore, not notating the planned hours in the working papers has no effect on the overall planning or execution of the audit.

Our Response

We disagree with the Director's comments. We did not state that the only way to comply with AT-C 205.12d is to record planned hours in the working papers. We recognize that others factors are important for determining the resources needed to successfully complete an audit, such as determining the requisite skill set of the audit team. We mentioned the lack of planned hours as an example of a procedure that the DCAA requires to help demonstrate compliance with AT-C 205.12.d. In our exit conference for Audit No. 09851-2014A10100005, we advised the DCAA representatives that the auditors did not document the extent of resources necessary to perform the audit, such as estimate the planned hours to complete the risk assessment and four other major sections of the audit. The auditors for this audit also did not prepare a milestone schedule, which is used by DCAA auditors to estimate the completion dates of key audit tasks and the overall audit.

We further disagree that not estimating the planned hours in the working papers has no effect on the overall planning or execution of the audit. Not estimating the planned hours to complete an audit could result in not assigning sufficient resources to complete the audit objective in a timely manner and in accordance with *Government Auditing Standards*.

Deficiency 5. The DCAA Supervisors for Seven Audits Did Not Perform Reviews That Complied With Standards

As discussed below, the DCAA Director provided specific comments on one of the seven audits discussed in Deficiency 5.

Audit No. 09851-2014A10100005

Defense Contract Audit Agency Comments

The DCAA Director disagreed that the audit staff was not appropriately supervised on the basis that an auditor completed and approved his own work. The Director explained that although the auditor completed and approved his own working papers, the working papers were also reviewed by another supervisor. The Director further explained that the auditor who approved his own working papers made corrective actions in response to the review performed by the other supervisor. Therefore, the audit complied with the supervision requirements in AT-C 105.33.

The Director acknowledged that the auditors did not document the planned hours, but stated that planning resources is not limited to estimating planned hours. The planning resources also includes the skill set of the team. The lack of estimating the hours needed to complete the audit and supervisor approval of the estimated hours does not impact the adequacy of the audit resources.

The Director explained that DCAA CAM 3-203.2(b)(2) does not require the supervisor to approve the planned risk assessment procedures (steps) prior to performing the procedures. Instead, the policy requires the supervisory auditor to approve the planned and completed risk assessment procedures prior to beginning fieldwork. The Director stated that the supervisor approved the completed risk assessment on April 27, 2019, which was prior to the performance of fieldwork.

Our Response

We recognize that the working papers were also reviewed by another supervisor. We also recognize that the other supervisor prepared interim guidance and suggested corrective actions to the auditor. However, the auditor did not take any action on two of the nine requested corrective actions. For example, the supervisor instructed the auditor to select a sample of contracts to verify that the contractor's billing to the Government complied with contract terms. However, the auditor did not perform the verification or explain why he did not perform the verification. In addition, the working papers do not indicate whether the other supervisor reviewed the auditor's corrective actions to determine if he completed the corrective actions. The lack of adequate supervision in this case resulted in a finding under the evidence deficiency. We reported the failure to verify the contractor's billing compliance with contract terms as a finding under the evidence deficiency for Audit No. 09851-2014A10100005.

We disagree with the Director's comment that the supervisor adequately planned resources to complete the audit. The supervisor did not ensure that the auditors had estimated the planned hours to ensure the resources were available to complete the audit. We also disagree with the Director that not estimating the planned hours to complete the audit would have no impact on determining the audit of resources necessary to complete the audit. DCAA CAM 3-203.2 suggests that auditors use estimated hours and milestone plans to plan the resources. Although the auditors did not estimate the planned hours or prepare a milestone plan, we did not find any evidence that the auditors or the supervisor used another method to plan the resources of the audit.

We disagree with the Director's comment that DCAA policy does not require approval of the planned risk assessment procedures prior to performing the fieldwork. The planned risk assessment section of the DCAA standard audit program states: "Approval required prior to performance of the preliminary audit steps." However, the supervisor never approved the planned risk assessment procedures (steps). Therefore, we concluded that the supervisor did not comply with the supervisory approval instruction outlined in the planned risk assessment section to the DCAA standard audit program. In addition, the supervisor did not comply with DCAA CAM 3-203.2, which requires that the supervisor approve the completed risk assessment procedures prior to beginning of the fieldwork or as soon as practicable. The supervisor approved the completed risk assessment working paper on April 27, 2019, 5 months after the fieldwork began and only two days before the audit report was issued on April 29, 2019.

We identified a total of 22 findings associated with Audit No. 09851-2014A101000055, including 5 supervision findings. Also, we identified 5 evidence findings, 2 planning findings, and 10 documentation findings. The supervisor did not detect the noncompliances associated with these findings and have them corrected before report issuance. Therefore, we concluded that this audit did not comply with AT-C 105.33, which requires that the audit be adequately supervised in accordance with established policies and procedures.

Deficiency 6. The DCAA Auditors for Six Audits Did Not Exercise Professional Judgment

As discussed below, the DCAA Director provided comments on one of the six audits discussed in Deficiency 6.

Audit No. 09851-2014A10100005

Defense Contract Audit Agency Comments

The DCAA Director disagreed that the audit lacked professional judgment primarily because the work papers were prepared and approved by the same auditor. In addition to the other supervision findings identified in this audit, the Director does not agree with this finding for this audit as detailed in her comments to Deficiency 5. Finally, the Director also disagreed that the audit team did not document the extent of resources necessary to perform the engagement, as discussed in the management comments to Deficiency 2.

Our Response

We did not determine that the audit lacked professional judgment primarily because the work papers were prepared and approved by the same auditor. We determined that the audit lacked professional judgment because the working papers reflected that the auditors did not plan or perform the audit in accordance with several *Government Auditing Standards*. The fact that the auditor prepared and approved his own working papers was only one of several examples that contributed to determining that the audit lacked professional judgment. We also stated that the auditor did not obtain sufficient evidence to support the audit opinion because the auditor did not verify that contractor employees charged the correct work authorization number.

In total, we identified 22 noncompliances with the *Government Auditing Standards*, including 5 related to insufficient evidence, 2 related to inadequate planning, 10 related to inadequate documentation, and 5 related to insufficient supervision. Taken collectively, the findings reflect that the audit team did not exercise reasonable care in planning and performing the engagement in accordance with GAS 3.60.

Enclosure 5

Defense Contract Audit Agency Director Comments



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

December 3, 2020

MEMORANDUM DEPUTY INSPECTOR GENERAL, EVALUATIONS OF SPACE,
INTELLIGENCE, ENGINEERING, AND OVERSIGHT, OFFICE OF
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System
Review Draft Report (Project No. D2019-DEV0SO-0149.000)

We appreciate the opportunity to respond to the subject draft report, dated November 3, 2020 and the time you spent discussing the issues with the DCAA staff.

We have performed a detailed review of the findings and concur with the pass with deficiencies rating. DCAA wants to emphasize that the audit results, as reported in the assignments reviewed by the DoD OIG, did not contain material errors or noncompliances that would impact our customer's ability to rely on our reported conclusions and recommendations. Overall, we agree with DoD OIG's conclusion on the Evidence, Reporting, and Documentation deficiencies, but we do not agree the DoD OIG's findings in the other three areas rise to the level of a reportable deficiency within DCAA's quality control system. We do not believe the findings in these areas are pervasive as defined in the Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of the Inspector General, Reporting the External Peer Review Results, dated September 2014, which was used to conduct the DoD OIG's review. In addition, we believe that the DoD OIG overstated some of its conclusions as detailed in our comments on the cited deficiencies.

We also disagree that several of the findings in all six areas, including Evidence, Reporting, and Documentation Deficiencies, are significant enough to meet the definition of a deficiency as defined by the "Guide" which states, "The significance of disclosed findings in the selected audits reviewed should be determined by the extent the reports could not be relied upon due to the failure of the reports and underlying work, including documentation, to adhere to GAGAS." For those in question, we do not believe the users' ability to rely on the report was significantly impacted and therefore did not rise to the level of a system deficiency.

For those recommendations we do agree with, we have begun planning several actions that we believe will correct many of the issues. Furthermore, we disagree with several of the recommendations and have proposed alternative actions. We appreciate your consideration of these proposed alternative corrective actions.

Finally, in March of 2020, DCAA established its Quality Goals Initiative. The Initiative incorporates a condensed checklist that was adapted from the September 2014 Council of the Inspectors General on Integrity and Efficiency (CIGIE) guide checklist. As we progress to the

Defense Contract Audit Agency Director Comments (Cont'd)

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System Review Draft Report (Project No. D2019-DEV0SO-0149.000)

2018 revision of GAGAS, we will use a checklist that has been adapted from the March 2020 CIGIE guide checklist. We are confident the Quality Goals Initiative as well as the DCAA planned actions discussed in our response will address the root causes identified in the DoD OIG's findings.

The following paragraphs contain our comments relative to the deficiencies and associated recommendations included in the draft report.

Deficiency 1. DCAA Auditors Did Not Obtain Sufficient, Appropriate Evidence on 19

Audits: For 19 of 60 audits (32 percent), DCAA auditors did not obtain sufficient, appropriate evidence to support conclusions used as a basis for the opinion expressed in the report.

DCAA Comments on Deficiency: **Concur.** DCAA concurs with the deficiency, however, we do not agree all instances are actual findings and that all findings rise to the level of an overall system deficiency.

DoD OIG Recommendation #1: We recommend that the Defense Contract Audit Agency Director provide training to auditors on the importance of adhering to the Defense Contract Audit Agency policy requirements for obtaining sufficient evidence, which incorporates scenario-based learning and includes the following concepts:

- a. Establishing the reliability of the contractor's information as basis for supporting the reported conclusion.
- b. Supporting conclusions that a contractor's proposed costs were reasonable.
- c. Supporting conclusions that a contractor's proposed costs were in accordance with contract terms.

DCAA Comments on Recommendation: **Concur.** DCAA plans to develop training to address the items discussed in recommendations 1.a, 1.b, and 1.c. To address these recommendations, DCAA plans to provide training to its audit staff that will cover the results of the peer review. The training will provide insight to the overall results and will address this recommendation. Additionally, DCAA will consider circumstances where scenario-based learning is feasible. Due to the vast differences in the subject matter and objectives of our attestation examinations, providing training that incorporates scenario-based learning is not always practical and may not address the root cause of these findings. DCAA plans to develop this training by September 30, 2021 and will deliver the training within six months after development.

DoD OIG Recommendation #2: We recommend that the Defense Contract Audit Agency Director establish policies and procedures to require that auditors identify and document in the audit program the specific procedures to be performed and evidence to be obtained when planning procedures to determine that costs are reasonable in accordance with solicitation and contract terms.

Defense Contract Audit Agency Director Comments (Cont'd)

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DCAA Comments on Recommendation: Non-concur. Alternative Corrective Action Planned. We believe the recommendation is too prescriptive since DCAA's standard audit programs require the audit team perform procedures and obtain evidence to determine that costs are reasonable in accordance with solicitation and contract terms. However, as part of the training from recommendation 1, DCAA plans to address the root cause of these findings. The training will emphasize the requirement to appropriately document the completion of planned audit procedures.

DoD OIG Recommendation #3: We recommend that the Defense Contract Audit Agency Director develop a tool, such as a quality control checklist, for supervisors to help ensure auditors comply with Government Auditing Standards, which addresses the following areas:

- a. Planning the audit.
- b. Documenting the specific procedures performed and evidence obtained.
- c. Obtaining sufficient, appropriate evidence.
- d. Reporting findings and conclusions.

DCAA Comments on Recommendations: Non-concur. Alternative Corrective Action Planned. DCAA does not believe it needs an additional checklist. DCAA supervisors already have access to various checklists that can be used as tools, including the Independent Reference Review (IRR) and Quality Assurance (QA) checklists. We will review these checklists to ensure they contain all relevant and applicable information related to this recommendation and are available to the audit staff. In addition, DCAA plans to communicate the importance of timely and thorough supervisory reviews, performed throughout the audit, to ensure compliance with GAGAS and DCAA policy.

Deficiency 2. DCAA Auditors Did Not Comply with Planning Standards for 17 Audits: For 17 of the 60 audits (28 percent), DCAA auditors did not plan the audit in accordance with standards.

DCAA Comments on Deficiency: Non-Concur. DCAA does not concur with the deficiency since we do not agree all instances are actual findings and that all findings rise to the level of an overall system deficiency. The majority of the findings relate to AT-C §205.15, which requires auditors to document their understanding of internal controls. Fundamentally, DCAA agrees this is a critical component in the audit planning process that enables the audit team to design procedures necessary to accomplish the objectives of the engagement. It should also be noted that DCAA uses standard audit programs to ensure the objectives of the engagement are met. DCAA policy requires the audit team to appropriately tailor the standard audit program if the circumstances necessitate it. Several instances, as detailed in the following paragraphs, did not result in a significant impact to the audit team's planning of the engagement and, therefore, do not warrant being reported as a planning deficiency.

Defense Contract Audit Agency Director Comments (Cont'd)

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System Review Draft Report (Project No. D2019-DEV0SO-0149.000)

For Assignment 2801-2018P21000011, the DoD OIG stated the auditors did not demonstrate an understanding of internal controls relevant to identified potential noncompliances since it did not observe in the audit working papers where the auditor explained how the noncompliances noted could be avoided if the policies and procedures were followed. DCAA disagrees with the finding. The audit team met the basic requirement since it documented a thorough understanding of the contractor's internal controls over the subject matter. Additionally, the audit team documented that there was no need to add additional steps to the DCAA standard audit program, thereby, it can be concluded the audit team appropriately planned the engagement by designing audit procedures to ensure potential noncompliances would be detected.

For Assignment 2351-2018H21000002, the DoD OIG stated the audit team did not document their understanding of relevant policies and procedures within the audit working papers. DCAA disagrees with this finding. The audit team documented its understanding of the internal controls of the accounting, estimating, and purchasing systems, which were all applicable to the audit. The audit team also thoroughly documented the procedures applicable to the identified system noncompliances. Finally, the audit team tailored audit procedures based on its understanding of the internal controls. This resulted in the audit team appropriately planning the engagement based on an understanding of the subject matter and internal controls.

For Assignment 9711-2013K10100005, the DoD OIG stated the audit team did not document an understanding of the contractor's accounting system and related internal controls that ensure subcontract costs are reasonable. DCAA disagrees with this finding. The audit team documented the internal controls related to subcontract costs which it was able to obtain from the contractor during the risk assessment. Based on this understanding, the audit team planned appropriate procedures to test for the reasonableness of subcontract costs. Therefore, the audit team appropriately planned the engagement by designing audit procedures to ensure reasonableness testing was performed.

For Assignment 1331-2019H17740003, the audit team appropriately designed procedures to accomplish the audit objectives by obtaining an understanding of the accounting system to ensure its design is acceptable for the award of a prospective Government contract. The audit procedures were properly planned and, as a result, the audit team determined the contractor's system complied with the audit criteria. We disagree with the DoD OIG that the audit team did not plan procedures to address the identified fraud indicators. The audit team conducted the following procedures related to the three items identified in the DoD OIG's report:

- a. The audit team planned procedures to review the contractor's policies and procedures for its total time accounting system which determined that all hours worked are properly recorded.
- b. The audit team planned procedures to ensure the proper exclusion of unallowable costs. Specifically, FAR Part 31.205-36(b)(3) states related party transactions between organizations under common control are allowable to the extent they do not exceed the normal cost of ownership.
- c. The audit team planned procedures to ensure all employees (direct and indirect) properly charge their time worked.

Defense Contract Audit Agency Director Comments (Cont'd)

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For Assignment 9851-2014A10100005, the DoD OIG found the audit team did not document the extent of resources necessary to perform the engagement, such as the planned hours estimated to complete the risk assessment. DCAA disagrees with this finding. AT-C §205.12d requires the auditor to ascertain the nature, timing, and extent of resources necessary to perform the engagements. Planned hours are an estimate, and a lack of notation in working papers to record the estimated hours to perform a portion of the engagement (the risk assessment) has no adverse impact on the overall planning or execution of the engagement. Sufficient resources were placed on the audit assignment to ensure the engagement was completed. In addition, the element of “Resources” is not solely limited to estimating the number of planned hours for the risk assessment. “Resources” also includes the skill set of the audit team to ensure the engagement is properly performed in accordance with GAGAS.

DoD OIG Recommendation #4: We recommend that the Defense Contract Audit Agency Director provide training, to auditors on the importance of adhering to the Defense Contract Audit Agency policy requirements for planning the audit that incorporates scenario-based examples and includes the following concepts:

- a. Reviewing and summarizing the request for proposal for solicitation terms and the contract for contract terms that are the criteria against the subject matter that will be examined.
- b. Gaining an understanding of internal controls that are relevant to the risk for material misstatement.
- c. Determining materiality of the subject matter.
- d. Planning procedures to address the risk of material misstatement of the subject matter.
- e. Developing awareness of fraud risk when planning the audit.

DCAA Comments on Recommendation: **Concur in Principle. Alternative Corrective Actions Planned or Taken.** Although DCAA does not concur with the overall deficiency, we will take action on the recommendation. DCAA plans to develop training to address the items discussed in recommendations 4.a, 4.d, and 4.e. Additionally, we will consider circumstances where scenario-based learning is feasible. However, due to the vast differences in the subject matter and objectives of our attestation examinations, providing training that incorporates scenario-based learning is not always practical and may not address the root cause of these findings. DCAA plans to provide training to its audit staff that will cover the results of the peer review. The training will provide insight to the overall results and will address this recommendation. DCAA plans to develop this training by September 30, 2021 and will deliver the training within six months after development.

DCAA has also taken action related to recommendation 4.b. As stated in our opening remarks, DCAA established its Quality Goals Initiative in March of 2020. The Initiative incorporates a condensed checklist that was adapted from the September 2014 Council of the Inspectors General on Integrity and Efficiency (CIGIE) guide checklist. As we progress to the 2018 revision of GAGAS, we will use a checklist that has been adapted from the March 2020 CIGIE

Defense Contract Audit Agency Director Comments (Cont'd)

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guide checklist. As part of the Quality Goals Initiative, we also shared this checklist with each DCAA Region and Contract Audit Directorate (CAD) in order to leverage the skillset of each Field Audit Office (FAO) Assistant for Quality (FAQ). The DCAA, Integrity and Quality Assurance Directorate also prepared and delivered training during the FAQ Workshop held August 24, 2020 through August 27, 2020.

DCAA has already taken action related to recommendation 4.c. In July of 2019, DCAA issued guidance on using materiality in incurred cost audits. DCAA also updated Contract Audit Manual (CAM) 6-107 and developed an E-Learning course, which was recommended to be completed by all auditors performing incurred cost audits. This action is responsive since the three assignments identified by the DoD OIG for not establishing a materiality threshold were all incurred cost audits.

Deficiency 3. DCAA Auditors Did Not Comply with Reporting Standards for 14 Audits:
For 14 of 60 audits (23 percent), DCAA auditors did not comply with the reporting standards.

DCAA Comments on Deficiency: Concur. DCAA concurs with the deficiency, however, we do not agree all instances are actual findings and that all findings rise to the level of an overall system deficiency.

DoD OIG Recommendation #5: We recommend that the Defense Contract Audit Agency Director:

- a. Evaluate the significance of the missing noncompliances on the reported opinion for Audit Report Numbers 01151-2018T23000001, 03241-2016S10100006, 03931-2015D10100009, and 07281-2014C10100014 and:
 1. determine if the need exists to communicate the noncompliances in writing to the report recipients, and
 2. document the determination and communication, if needed, in the working papers.
- b. Evaluate the significance of the missing scope limitations in Audit Report Numbers 01191-2018G17200001, 01321-2018V17900002, 01341-2015P10100019, and 01571-2015H10100011 and determine if the reports can still be relied upon.
- c. Issue a memorandum to the auditors to emphasize the requirements in the Defense Contract Audit Agency Contract Audit Manual for reporting noncompliances and scope limitations.
- d. Send Audit Report Numbers 01331-2019H17740002, 01341-2015P10100019, and 04981-2018E17900003 to the required officials who did not receive the audit reports from the Defense Contract Audit Agency or other officials.
- e. Require all Defense Contract Audit Agency auditors to complete comprehensive training on complying with reporting standards, such as AUD104, "Developing an Effective Audit Report."

Defense Contract Audit Agency Director Comments (Cont'd)

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System Review Draft Report (Project No. D2019-DEV0SO-0149.000)

DCAA Comments on Recommendation: Concur. Alternative Corrective Action Planned. Although DCAA does not concur with all of the findings associated with the deficiency, we do concur with recommendations 5.c, and 5.d. For recommendations 5.a and 5.b, DCAA will determine if it will serve a useful purpose to reissue the reports to include the missing noncompliances and scope limitations. DCAA plans to accomplish these recommendations within 90 days of issuance of the final DoD OIG report on DCAA's quality control system.

DCAA does not concur with recommendation 5.e. because we feel the recommended course does not address the root cause of the DoD OIG findings. The cited class, AUD104 – Developing an Effective Audit Report, is intended to provide students with the tools to develop a clear and concise audit report that supports the audit opinion and allows the contracting officer to understand the findings and make an informed decision. Compliance with GAGAS reporting standards is limited to one unit in this course. Instead, DCAA plans to provide training to its audit staff that will cover the results of the peer review. The training will provide insight to overall results and will address this recommendation. We plan to develop this training by September 30, 2021 and will deliver the training within six months after development.

Deficiency 4. DCAA Auditors Did Not Prepare Audit Documentation in Sufficient Detail for 14 Audits: For 14 of 60 audits (23 percent), DCAA auditors did not prepare audit documentation in sufficient detail to understand the nature and the extent of the work performed.

DCAA Comments on Deficiency: Concur. DCAA concurs with the overall DoD OIG conclusion on this deficiency.

DoD OIG Recommendation #6: We recommend that the Defense Contract Audit Agency Director provide training to audit staff on the expectations for documenting the work performed in sufficient detail and emphasize:

- a. Procedures planned to satisfy the audit objective.
- b. Rationale for significant judgments made.
- c. Procedures performed and evidence obtained to support the conclusions reached.
- d. Procedures performed to test for compliance with the subject matter criteria.
- e. Scope of the audit in the summary risk assessment working paper.
- f. Procedures performed to reconcile the contractor-provided data to supporting documentation.

DCAA Comments on Recommendation: Concur. DCAA agrees with the recommendation. To address this recommendation, DCAA plans to provide training to its audit staff that will cover the results of the peer review. The training will provide insight to the overall

Defense Contract Audit Agency Director Comments (Cont'd)

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results and will address this recommendation. DCAA plans to develop this training by September 30, 2021 and will deliver the training within six months after development.

Deficiency 5. DCAA Supervisors Did Not Perform Supervisory Reviews That Complied With Standards in 7 Audits: For 7 of 60 audits (12 percent), DCAA supervisors did not perform supervisory reviews that complied with standards

DCAA Comments on Deficiency: Non-Concur. DCAA does not agree with the findings and does not agree that the findings cited represent systemic issues that would rise to the level of a separate supervision deficiency.

For Assignment 9851-2014A10100005, the DoD OIG found the staff was not appropriately supervised because an auditor completed and reviewed one section of the audit working papers, appropriate resources were not planned for the engagement, and the Supervisory Auditor did not approve the risk assessment procedures. DCAA disagrees with these findings. Prior to promotion to Supervisory Auditor, and while assigned as a staff auditor, one employee completed a single section of the audit. Then, after promotion, as the Supervisory Auditor, the employee signed the working paper when finalizing the audit package. However, the employee did not complete and review their own audit work. DCAA put into place appropriate measures to ensure the risk of self-review was mitigated. As documented in the audit working papers, another Supervisory Auditor, who was independent from the assignment, performed the supervisory review of the working paper section. The newly promoted Supervisory Auditor took corrective actions in their working papers in response to the review comments made by the independent Supervisory Auditor. Therefore, the audit team complied with AT-C §105.33.

Regarding resources not being properly planned, we acknowledge the audit team did not document its total planned hours in the working papers. However, AT-C §205.12d requires the auditor to ascertain the nature, timing, and extent of resources necessary to perform the engagements. The element of “Resources” is not limited solely to estimating the number of planned hours during the risk assessment. “Resources” also includes the skill set of the audit team to ensure the engagement is properly performed in accordance with GAGAS. Planned hours are an estimate, and not sufficiently documenting this estimate in the working papers has no impact on the planning, execution or completion of the engagement. Additionally, the lack of supervisory approval of the estimated hours in the audit working papers does not significantly impact the adequacy of the resources for the engagement.

The DoD OIG stated the Supervisory Auditor did not approve the risk assessment procedures and stated that DCAA policy requires the approval of all procedures prior to their performance. DCAA disagrees with this finding. DCAA policy does not require the risk assessment procedures to be approved by the Supervisory Auditor prior to beginning the risk assessment. Rather, DCAA policy (CAM 3-203.2(b)(2)) requires the Supervisory Auditor to approve the completed risk assessment and planned procedures prior to beginning fieldwork or as soon as practicable (CAM 3-203.2(b)(4)). The completed risk assessment was approved by the supervisory auditor on April 27, 2019, which was prior to the performance of fieldwork.

Defense Contract Audit Agency Director Comments (Cont'd)

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System Review Draft Report (Project No. D2019-DEV0SO-0149.000)

DoD OIG Recommendation #7: We recommend that the Defense Contract Audit Agency Director remind supervisors in writing of the need to document auditor guidance and feedback and to ensure that the feedback is sufficiently addressed by auditors.

DCAA Comments on Recommendations: Concur in Principle. Although DCAA does not concur with the overall deficiency, we will take action on the recommendation. First, we plan to communicate to all DCAA supervisors the requirements to appropriately document both audit guidance and feedback from supervisory reviews in all audit assignments. Second, DCAA plans to address this recommendation by providing training to its audit staff that will cover the results of the peer review. The training will provide insight to the overall results and will address this recommendation. DCAA plans to develop this training by September 30, 2021 and will deliver the training within six months after development.

Deficiency 6. DCAA Auditors Did Not Exercise Professional Judgment in 6 Audits: For 6 of 60 audits (10 percent), DCAA auditors did not use appropriate professional judgment.

DCAA Comments on Deficiency: Non-Concur. DCAA does not concur that the DoD OIG review findings rise to the level of a reportable deficiency within DCAA's quality control system. DCAA does concur with the findings in five of the six assignments identified by the DoD OIG as lacking professional judgment. We do not believe the findings in this area are pervasive as defined in the Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of the Inspector General, Reporting the External Peer Review Results, dated September 2014, which was used to conduct the DoD OIG's review. Also, we believe that, the audit steps in one audit were sufficient and the audit was appropriately planned, performed, and supervised in accordance with GAGAS.

For Assignment 9851-2014A10100005, the DoD OIG stated that the assignment lacked professional judgment primarily due to the work papers being prepared and reviewed by the same auditor. In addition to the other supervision findings identified in this assignment, we do not agree with this finding as detailed in our comments on Deficiency 5. Additionally, the DoD OIG found the audit team did not document the extent of resources necessary to perform the engagement. We also disagree with this finding as described in our comments on Deficiency 2.

DoD OIG Recommendation #8: We recommend that the Defense Contract Audit Agency Director provide training to audit staff that incorporates scenario-based learning on Sections 3.109, 3.110, and 3.113 of the 2018 *Government Auditing Standards* requirements for exercising professional judgment and for adhering to the key concepts of planning, documentation, evidence, and reporting.

DCAA Comments on Recommendation: Concur in Principle. Although we do not agree these findings constitute a deficiency, we agree to provide training to the DCAA audit staff that addresses the 2018 GAGAS requirements for exercising professional judgment and for adhering to the key concepts of planning, documentation, evidence, and reporting. Additionally,

Defense Contract Audit Agency Director Comments (Cont'd)

SUBJECT: Response to External Peer Review of the Defense Contract Audit Agency System Review Draft Report (Project No. D2019-DEV0SO-0149.000)

DCAA will consider circumstances where scenario-based learning is feasible. Due to the vast differences in the subject matter and objectives of our attestation examinations, providing training that incorporates scenario-based learning is not always practical and may not address the root cause of these findings. DCAA plans to develop this training by September 30, 2021 and will deliver the training within six months after development.

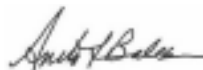
DoD OIG Recommendation #9: We recommend that the Defense Contract Audit Agency Director:

- a. Conduct and document a review of the six audits to determine whether Audit Report Numbers 01161-2015K10100002, 01431-2013C10100022, 01571-2015H10100011, 03401-2016E19410001, 07281-2014C10100014, and 09851-2014A10100005 should be rescinded or revised.
- b. Remind all audit staff in writing of the importance of exercising due professional care in planning and performing the audit as well as reporting the results.

DCAA Comments on Recommendations: Concur in Principle. Although we do not agree these findings constitute a deficiency, we agree to conduct a review of the six audits to assess whether they should be rescinded or revised. The cognizant FAO will coordinate with the customer to determine if there is a benefit to the Government to supplement the audit work to make the engagements compliant with the applicable GAGAS criteria. If there is a benefit to the Government, the FAO will perform the necessary audit procedures in accordance with GAGAS and supplement the audit report as soon as possible. The FAO manager will be responsible for determining the extent of additional procedures required to meet the standards. If there is no identified benefit to the Government, the FAO will prepare a memorandum and include it in the audit file. DCAA also plans to communicate to the audit staff the importance of exercising due professional care in planning and performing the audit as well as reporting the results. This will be communicated as part of DCAA's training to the audit staff that will cover the results of the peer review. The training will provide insight to the overall results and will address this recommendation.

Concluding Remarks

As stated in our response, we will ensure all auditors are aware of the peer review findings and, in line with our goal of continuous improvement, highlight areas the DoD OIG identified in its report. As mentioned, DCAA's Quality Goals Initiative, the corrective actions taken as a result of this report, and our ongoing assessment of our efficiency and effectiveness, we believe the quality and usefulness of our reports and reviews will continue to strengthen. If you have questions or need additional information, please feel free to contact [REDACTED]
[REDACTED]



Anita F. Bales
Director

Acronyms and Abbreviations

- AT-C** American Institute of Certified Public Accountants Codification of Statements on Standards for Attestation Engagements
- CAD** Corporate Audit Directorate
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- DCAA** Defense Contract Audit Agency
- FAR** Federal Acquisition Regulation
- GAS** *Government Auditing Standards*
- RGB** Raytheon, General Dynamics, and BAE



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