

DCAA's External Quality Control Audit

Written by Nick Sanders
Monday, 29 March 2021 00:00

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.

Every couple of years, DCAA's quality control system gets an "external peer review." In March, the DOD Inspector General [published](#) its latest peer review findings. The initial quote, above, is the summary of the report: "pass with deficiencies."

Long-time readers may recall that the DOD Inspector General hasn't always reported favorably on the quality of DCAA's audits. Moreover, DCAA went without an externally reviewed quality system for several years, because the agency failed a peer review. In 2017, we [reported](#) that DCAA had passed its peer review, even though 25 of the 67 selected audit reports had deficiencies. To put it another way: nearly 40% of the audit reports selected for review by the DOD Inspector General had deficiencies. Importantly, no deficiencies were found (in 2017) to be significant deficiencies that would have imperiled DCAA's audit quality system.

We took some issue with that 2017 audit, quoting a finding from the report that stated:

For 18 of 67 audits (27 percent) we selected for review, we found one or more instances in which DCAA auditors did not obtain sufficient, appropriate evidence to support an opinion expressed in the report. We found this deficiency in all six DCAA regions. Among the 18 audits, we found a total of 25 instances when the auditors did not obtain sufficient, appropriate evidence to support DCAA's opinion that contractor proposed costs were reasonable, allowable, or compliant with contract terms.

Back in 2017, we opined on that particular finding as follows:

Well, gosh. More than a quarter of all selected reports lacked sufficient evidence to support audit conclusions. That seems like kind of a big deal to us. Yet, the IG, using professional

judgment, did not deem that deficiency to be a significant deficiency.

Moreover, as the IG itself noted in the report, this is a repeat finding from the external peer review it conducted in 2014. The IG stated that DCAA had taken corrective actions in response to the 2014 finding, but the corrective actions had proven ineffective and “based on the results of our current review, DCAA still needs to consider additional steps to ensure that auditors gather sufficient evidence to support reported opinions.”

If this were a contractor business system review and there had been a repeat finding, we all know what the result would be.

We had more to say in that vein; you can read our 2017 article ([link above](#)) if you are so inclined. In the meantime, let's see what the IG had to say in 2021.

The Inspector General team selected 60 DCAA audit reports from a universe of 3,616 audits performed between July 1, 2018 and June 30, 2019. From the sample of 60, the IG found 50 findings associated with 29 of the reports. In essence, roughly 50% of all DCAA audit reports selected had at least one finding; and many had multiple findings.

In 19 of the 60 audits (or about one-third), the auditors “did not obtain sufficient, appropriate evidence to support their opinion.” The audit report noted that this finding was a repeat from its 2017 peer review, which was at that time a repeat finding from the 2014 peer review. DCAA keeps struggling to implement corrective actions to improve in this area; however, “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're sure they will get it right the next time the DOD IG shows up.

There were other findings. As far as we could tell, each finding in the latest peer review audit report was a repeat finding from the 2017 audit report. DCAA had taken its promised corrective actions, yet those corrective actions proved to be insufficient to remediate the issues.

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Repeat findings. Ineffective corrective actions.

Yet, DCAA gets another pass.

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