

# DOD Inspector General Investigates DCAA Audit Quality and Work Environment Issues

Written by Administrator

Tuesday, 29 September 2009 00:00

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In the litany of [investigations](#) and [reviews](#) covering DCAA's ability to generate quality audits and to comply with Generally Accepted Government Auditing Standards ( [GAGAS](#) ), the Department of Defense Office of Inspector General (DOD IG) [report](#) issued on August 31, 2009 does not stand out for incendiary findings. In fact, its findings seem so comparatively benign (and lacking new findings) that [comments](#) to the GovExec.com story from purported current and ex-DCAA auditors indicate they believe it to be essentially useless. We don't agree with their criticism. If nothing else, the DOD IG provides another independent confirmation of many of the audit quality problems initially found by GAO. Moreover, some of the IG findings and commentary may have implications for other DOD contractors.

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The DOD IG conducted a “follow-up” review from the now infamous July 2008 GAO report finding widespread independence and audit quality issues in DCAA’s Western Region. (The latest September 2009 GAO report will be the subject of a future article.) In its 2008 report, GAO

found

(among other things) employee intimidation by DCAA management.

Subsequently, both the Chair and Ranking Member of the Senate Committee on Armed Services, as well as Undersecretary of Defense (Comptroller), requested that the Inspector General (a) perform independent interviews of Western Region auditors, (b) evaluate 13 “cases” that GAO had alleged did not comply with GAGAS, and (c) assess DCAA’s actual and planned corrective actions in response to the issues identified by GAO.

As part of its efforts, the DOD IG reviewed 76 audits at three DCAA Western Region locations, covering eight contractors, two of whom were among the Top 10 DOD contractors in GFY 2008.

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he DOD IG unsurprisingly confirmed many of the GAO’s 2008 findings

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moreover

expressed the opinion that the DCAA Western Region may have had a “work environment not conducive to performing quality audits.”

Following are selected findings from the DOD IG report.

The DOD IG confirmed prior GAO findings with respect to “Contractor A, Case 2” that the audit findings were impaired because of auditor independence issues related

to the Western Region Audit Manager (RAM)

, and that the audit working papers were insufficient to support the audit opinions. (“Contractor A” is responsible for the Evolved Expendable Launch Vehicle as well as the Delta IV rocket.) Moreover, the DOD IG confirmed that original audit opinion was changed without sufficient documentation. As a result (according to

the DOD IG), the U.S. Air Force may have agreed to pay up to \$271 million in unallowable costs either related to losses on other contracts or to costs incurred in prior cost accounting periods.

The USAF Space and Missiles Center (SMC) agreed to suspend further payments to

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Contractor A

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pending resolution of the matter.

The DOD IG confirmed prior GAO findings with respect to “Contractor B, Case 3” that DCAA “Location 2” issued three defective pricing audit reports covering “freight-out costs” that the contractor and its customer had previously agreed would be unallowable (but which were included as indirect costs in proposals submitted to the Government). The three audit reports were rescinded after issuance of the original GAO report, but “DCAA did not explain to the contracting officer why [they were rescinded].” In addition, the DOD IG concluded that “DCAA failed to provide effective audit services and advice to the contracting officer” with respect to attempts to quantify and resolve the issue, which was treated as a noncompliance with CAS 405.

The DOD IG confirmed prior GAO findings with respect to “DCAA Location 3, Case 8” in which 17 of 18 audit reports related to contractor cost proposals “had one or more of the following deficiencies,” including (among others): lack of professional judgment, inadequate documentation or sufficient evidence, and inadequate supervision.

In what may be a controversial finding, the DOD IG had this to say about labor floor check findings at “Contractor C, Case 12”—“The floor check audit included evidence that salaried employees worked uncompensated overtime but did not record all hours worked on their timesheets ... a serious risk of mischarging exists when salaried employees do not record all hours worked. DCAA still needs to determine the significance of the [control system] deficiency during the affected time period.” Moreover, although DCAA did take some effective corrective actions to address the perceived control deficiency, it had not “identified all necessary actions to determine and mitigate the impact to the Government” with respect to the contractor’s submission of its incurred costs and final indirect cost rates for its FYs 2005 through 2008. This issue is controversial because there is no statutory or regulatory requirement that contractors engage in what is called “total time accounting” for salaried exempt employees; and industry has fought this requirement for, quite literally, decades. The DOD IG report ignored the controversy and painted a black and white picture that will be misleading to the casual reader.

In addition to the confirmations noted above, the DOD IG interviewed 68 DCAA employees and managers at in the affected Western Region Field Audit Offices (FAOs). According to the IG’s report, 18 percent of those interviewed “had a supervisor change or direct a change to audit results and opinions.” Further, 47% of interviewees had “experienced pressure because of unreasonable performance measures,” and 62% had worked uncompensated overtime. Finally, 68% of those interviewed had “witnessed unprofessional behavior in the office,” which the IG stated included instances of raised voices and yelling. The report also noted instances of an administrative employee repeatedly “yelling and swearing” at an audit supervisor.

According to a GovExec.com [article](#) , the DOD IG report consisted largely of “mundane stories” that hardly give rise to the DOD IG’s conclusion that DCAA’s workplace and environment “may have contributed to deficient audit work.” The report also “indicates that the workforce problems might have been isolated to a handful of recalcitrant managers.”

Considering the scrutiny and attacks facing DCAA at the moment, this report does not seem particularly damaging. Ultimately, the impact of the report may be determined by how DCAA uses it as support for positions and/or audit findings it takes in future audits of DOD contractors.