

DOD IG Calls Out DCAA Audit Quality Failures—Reactions

Written by Nick Sanders
Monday, 18 March 2013 00:00



Last week we published [our take](#) on the recent DoD Inspector General report, in which it reviewed 50 reports issued by the Defense Contract Audit Agency (DCAA) in Government Fiscal Year 2010, and found that 37 of them (74 percent of the review sample) were noncompliant with applicable requirements of Generally Accepted Government Auditing Standards (GAGAS). The DOD IG did not just find one or two GAGAS issues; it identified multiple deficiencies in each audit report.¹ The audit quality issues were so pervasive that the IG concluded that “the audit staff did not exercise professional judgment,” and stated that “the abundance of noncompliances with standards identified in the 37 assignments evidences the need for improvements in the area of competence at DCAA.”

In other words, the DOD Inspector General stated in writing that it thought DCAA, as an audit agency, was *incompetent*. This is not a good thing to be accused of, not when your audit findings can cost contractors millions of dollars just to litigate the matter in front of a (hopefully) impartial tribunal in order to refute those audit findings. But one can’t take this individual DOD IG audit report at face value; it needs to be put into proper context.

The fact of the matter is that this is simply the latest volley in the ongoing series of battles that we’ve come to call “The DOD Oversight Wars.” GAO, the DOD IG, DCMA and DCAA have, at one time or another, taken aim at each other. Congress has, from time to time, weighed into fray as well. For a while, the so-called Independent Commission on Wartime Contracting provided a forum for the various sides to battle with each other, when it wasn’t pushing its own agenda. The point is: you can’t fully evaluate this latest IG report without understanding the historical context in which it was issued.

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Over at GovExec.com, Charles Clark (or his editor) noted the historical context, in a story with the headline, “Pentagon’s Internal Feud Over Contract Auditing Takes a New Twist.” Mr. Clark also reported that—

Pentagon executives, in statements emailed to *Government Executive*, complained that the IG report focuses on old work and fails to factor in reforms instituted at DCAA by Patrick Fitzgerald after he took over as director in November 2009.

‘I’m troubled that the focus of this is on work that was performed between 2006 and 2009, which completely ignores the changes our employees have made in the last three years,’ Fitzgerald said. ‘Not only does the report fail to reflect current operations, it’s an unfair characterization of the significant improvements our workforce has made in audit quality. While the issues raised in the report are important, the time period of analysis doesn’t begin to account for the progress we’ve made.’

Fitzgerald’s boss, Pentagon Comptroller Robert Hale, said, ‘I am deeply disappointed that this report is being issued when it so clearly reflects old data and replicates findings previously made’ by the Government Accountability Office in 2009. ‘I question the usefulness of a report that is being issued four years after the DCAA work was performed. I remain committed to ensuring that DCAA execute its mission effectively, and I welcome fair analyses that focus on DCAA’s current work.’

In a similar vein, Sean Reilly at FederalTimes.com reported—

The report is the latest in a series to question the competence of DCAA’s 4,700-strong workforce, but the long lag time drew an unusually heated reaction from the agency’s chief, Pat Fitzgerald, as well as Defense Department Comptroller Robert Hale. In a prepared statement released by DoD’s press office, Fitzgerald said the inspector general’s review ‘completely ignores the changes our employees have made in the last three years.’

‘While the issues raised in the report are important, the time period of analysis doesn’t begin to account for the progress we’ve made,’ Fitzgerald said. Hale echoed that criticism, saying in an accompanying statement that the IG report ‘clearly reflects old data and replicates findings’ made by the Government Accountability Office in 2009.

Amber Corrin, at [Federal Computer Weekly](http://FederalComputerWeekly.com), seemed to disagree with both Director Fitzgerald and Comptroller Hale, writing—

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According to the [DOD IG] report, DCAA officials said that some of the assignments in question may suffer from residual effects of a ‘production-oriented environment’ that existed before fiscal 2009, when the agency began taking corrective actions. The IG acknowledged the corrective actions, which include revised training, curriculum and guidance, and noted that the effectiveness of those steps would be evaluated in future reviews.

Perhaps the issue that bothered the quoted DOD leaders the most was that the DOD IG report had been “delayed” and was issued long after performance of field work. As Ms. Corrin wrote—

In the report, the IG noted that its findings had been delayed ‘due to a shift in our primary oversight of DCAA to reviewing Defense Hotline complaints during the period of January 2010 through January 2012.’

Similarly, Geoff Whiting at [Fierce Government](#) wrote—

The IG acknowledged that the report's completion was substantially delayed due to a shift in its office's oversight priorities of DCAA from quality reviews to hotline reviews from January 2010 through January 2012. It says the effectiveness of corrective actions, such as new training and guidance, is has already taken will be evaluated in future reviews.

You may be wondering about our reaction to the reactions of Director Fitzgerald and Comptroller Hale. Well, wonder no longer, dear readers.

First (as was noted by a commenter on GovExec.com), while it may be true that some or even much of the audit work was performed in GFY 2009—before Mr. Fitzgerald took over his role as DCAA Director—the fact of the matter is that the reports were issued under his watch. All 50 were issued after former Director Stephenson had left the audit agency and while Director Fitzgerald was responsible for the quality of the audit reports. If he was uncomfortable with the quality of the audit procedures or the lack of compliance with GAGAS, he should not have let them be issued.

While it may be true that he could not have personally reviewed all audit reports issued by the agency, it is also true that he was responsible for them. He was accountable for them. It was (and still is) his watch. Moreover, as agency productivity has fallen, it is now quite possible for him to review a fairly substantial portion of the agency's output.

And speaking of audit productivity, the DOD IG report made it crystal clear that the seemingly

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endless cycle of management reviews has done little to increase audit quality, and much to delay issuance of audit reports. As we [reported](#) in a series of articles, by GFY 2011 (two years into its set of “corrective actions”), the productivity at DCAA had dropped by at least 76 percent, and by one measure had dropped by 81 percent. By DCAA’s own reported metrics, in GFY 2011 it took an average of nearly *three full years*

to issue a single audit report on a contractor’s annual “incurred cost” submission.

Delayed audit reports are what Apogee Consulting, Inc.’s clients experience nearly every single day. That is, when they actually receive audit reports—*i.e.*, when the assignments aren’t cancelled after years of languishing field work.

So when the DOD leaders complain about the DOD IG’s two-year delay in issuing its audit report, we smile knowingly and say to them, “*welcome to our world.*” It doesn’t feel very good to get audit reports years after the work was performed, does it? So why does DCAA leadership let it happen, over and over and over again?

But you know what does feel pretty good? The *schadenfreude*. It feels *really* good, actually.

Look: we here at Apogee Consulting, Inc. have been complaining for years about the current DCAA audit environment, where reports are inexplicably delayed for years, and findings seem to lack much (if any) rational basis. The DOD IG’s report is nothing new. It just confirms that our past complaints have had merit.

Now it’s time for DOD leaders to stop reacting defensively to these audit findings, and to start admitting that their “corrective actions” have not addressed the fundamental issues that, as we have asserted in the past, are driving astounding levels of litigation activity. Pushing the sole metric of the amount of questioned costs does nothing to lead to the quality of audit findings; instead, it leads to audit findings that both lack evidentiary support and are unsupported by applicable regulatory requirements. Implementing multiple reviews does little to drive audit quality; instead, it leads to delayed issuance of audit reports. Forcing extreme working paper documentation does not drive GAGAS compliance; instead, it leads to auditors spending more time documenting audit procedures than they spend actually performing those procedures in audits of contractors’ costs.

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These facts must be admitted and the audit agency needs to do a 180 degree course correction. If it doesn't enthusiastically embrace change, future GAO and DOD IG (and external quality reviewer) reports will become tediously repetitive in their excoriation of DCAA audit quality.

1. In fairness, the IG's methodology kind of guaranteed that it would find multiple GAGAS violations if it found any GAGAS violation.