Inspector General

United States Department of Defense

Hotline Review January 10, 2012

Hotline Complaint Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency Mid-Atlantic Region

Report No. DODIG-2012-038

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Acronyms and Abbreviations

ACO	Administrative Contracting Officer
CACWS	Cumulative Allowable Cost Worksheet
DCAA	Defense Contract Audit Agency
DACO	Divisional Administrative Contracting Officer
DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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January 10, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Report on Hotline Complaint Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency Mid-Atlantic Region (Report No. DODIG-2012-038)

We are providing this report for your information and use. We performed this review in response to a DOD Hotline complaint. We substantiated that an audit team in the Mid-Atlantic Region of Defense Contract Audit Agency is not reviewing final vouchers in a timely manner, and inappropriately canceled a contracting officer's request for a progress payment review. By January 31, 2012, the Director, Defense Contract Audit Agency agreed to assess the Agency-wide prioritization of performing final voucher reviews as part of the Agency's incurred cost initiative, so that that the risks related to those reviews are properly considered. In addition, the Defense Contract Audit Agency and the Defense Contract Management Agency agreed to consider appropriate administrative action for the improper cancelation of the progress payment review.

We considered management comments on a draft of this report when preparing the final report. The Defense Contract Audit Agency and the Defense Contract Management Agency comments conformed to the requirements of DOD Directive 7650.3; therefore, additional comments are not required.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Carolyn R. Davis at (703) 604-8877 (DSN 664-8877), or carolyn.davis@dodig.mil.

Randolph R. Stone, SES
Deputy Inspector General
Policy and Oversight

Results in Brief: Hotline Complaint Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency, Mid-Atlantic Region

What We Did

We reviewed a DOD Hotline complaint alleging that a Defense Contract Audit Agency (DCAA) audit team in the Mid-Atlantic Region failed to provide adequate audit services.

What We Found

We substantiated two of three allegations listed in the complaint. We substantiated that the DCAA audit team:

- provided inadequate audit assistance in closing contracts by not reviewing final vouchers in a timely manner; and
- inappropriately canceled its review of a progress payment based on direction from another contracting officer who did not have the authority to cancel it.

We did not substantiate a third allegation that the DCAA audit team failed to perform a requested estimating system audit.

What We Recommend

DCAA management should:

- ensure timely completion of final voucher reviews by the audit team;
- meet with the Defense Contract Management Agency field office at least monthly to discuss the status of the audit team's final voucher reviews;
- reassess its priorities on an agency-wide basis to ensure that auditors complete final voucher reviews in sufficient time to close contracts within Federal Acquisition Regulation timeframes;
- consider appropriate administrative action for the improper cancelation of a progress payment review; and
- develop procedures covering the preparation of audit leads.

We recommend that the Director, DCMA consider appropriate administrative action for a contracting official who requested that DCAA cancel an audit without having such authority.

Management Comments and Our Response

The management comments were responsive to all recommendations. Of the nine recommendations addressed to DCAA, the Director, DCAA concurred with 6 and did not concur with three. However, regarding the 3 non-concurrences, the Director, DCAA proposed alternative actions which were responsive to the recommendations. Among them, the Director, DCAA agreed to assess its current prioritization of performing final voucher reviews and take action consistent with the assessment and available staffing.

The Director, DCMA concurred with all three recommendations addressed to DCMA. For example, the Director, DCMA agreed to consider appropriate administrative action and reinforced to contracting officers that they should not take action which is beyond their authority. Please see the recommendations table on the following page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Contract Audit Agency	None	A.1.a; A.1.b.; B.1.a.; B.1.b.; B.1.c.
Director, Defense Contract Management Agency	None	B.2.a; B.2.b.
Commander, Defense Contract Management Agency Field Office	None	A.2.
Field Audit Office Manager, Defense Contract Audit Agency	None	A.3.a,; A.3.b.; B.3.a.; B.3.b.

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Introduction

Objectives

We conducted this review to determine the validity of a DOD Hotline complaint alleging that an audit team in the Defense Contract Audit Agency Mid-Atlantic Region failed to provide effective audit services to Defense Contract Management Agency. The complainant specifically alleged that the audit team:

A. does not provide timely assistance to a DCMA field office in the closeout of contracts;
B. improperly canceled a review of a progress payment requested by an administrative contracting officer; and
C. failed to perform an audit of an estimating system that might have resulted in corrective actions to the contractor's estimating system.

See the Appendix for details of our scope and methodology.

Background

Defense Contract Audit Agency (DCAA)

In accordance with DOD Directive 5105.36, DCAA performs contract audits and provides accounting and financial advisory services in connection with the negotiation, administration and settlement of DOD contracts and subcontracts. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller).

Organizationally, DCAA includes a Headquarters, Field Detachment, and five regions: Central, Eastern, Mid-Atlantic, Northeastern, and Western. Each region maintains several field audit offices, and each field office is comprised of multiple audit teams. A field audit office manager oversees each field audit office, and a supervisor leads each audit team. The allegations addressed in this report involved an audit team assigned to a field audit office in the Mid-Atlantic Region[1].

As a government audit organization, DCAA must comply with applicable generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the standards issued by the American Institute of Certified Public Accountants.

The DCAA Contract Audit Manual prescribes auditing policies and procedures for auditors to follow when performing audits. The Contract Audit Manual incorporates GAGAS into its guidance.

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[1] Although most of the events covered in this report occurred while the audit team was assigned to the Mid-Atlantic Region, the audit team was later reassigned to the Northeastern Region in August 2010 as part of a pilot project.

Defense Contract Management Agency (DCMA)

DCMA works directly with DOD contractors to help ensure that DOD, Federal, and allied government supplies and services are delivered on time, at projected cost, and meet all performance requirements. The Agency serves as the in-plant representative for DOD buying agencies, and administers more than 300,000 active government contracts.

DCMA administrative contracting officers (ACOs) are responsible for several contract administrative functions, such as closing out contracts, determining the allowability of claimed costs, and assessing the adequacy of the DOD contractor's major business systems (for example, the contractor's estimating, and accounting systems). DCAA issues audit reports and provides other accounting advice to ACOs in connection with those responsibilities.

Finding A. DCAA Audit Team Did Not Provide Timely Assistance in the Closeout of Contracts

We substantiated an allegation that the DCAA audit team did not provide timely assistance to a DCMA field office in the closure of contracts. The audit team considers its review of final vouchers as a low-priority review. In addition, the audit team failed to communicate effectively with the DCMA field office in discussing the status of the final voucher reviews and addressing barriers for completing them. The DCAA audit team should complete final vouchers reviews in a timely manner and meet with the DCMA field office at least monthly.

Allegation

The complainant alleged that the DCAA audit team does not provide timely assistance to DCMA in the contract closeout process and declines to prepare a Cumulative Allowable Cost Worksheet to facilitate the closeout process.

Background

Contract closeout is a process that takes place after a contractor satisfies its contractual obligations. As part of the process, DOD contractors submit a final voucher to DCMA which includes total cost incurred and fees due under the contract. In turn, DCMA forwards the final voucher to DCAA in order to verify that the claimed costs and fee are allowable and comply with the terms of the contract. Final voucher reviews can be performed in a relatively short timeframe because, prior to receiving the final voucher, DCAA has already determined the amount of allowable costs under the contract based on earlier audits.

DCAA Contract Audit Manual, chapter 6-1009.3, requires the auditor to complete final voucher reviews in sufficient time to permit the DCMA contracting officer to close out contracts within the time standards specified in FAR 4.804. FAR part 4.804-1(a)(3) establishes specific time periods for closing out contracts depending on the circumstances. For example, contracts requiring settlement of indirect rates should be closed within 36 months after physical contract completion. Since several other contract actions must take place before and after DCAA's review of the final voucher, DCAA should review the voucher in a timely manner which permits the ACO sufficient time to close out contracts within the FAR specified timeframes.

A Cumulative Allowable Cost Worksheet (CACWS) summarizes allowable costs for flexibly- priced contracts and serves as a tool to expedite contract closeout. According to DCMA policy, contracting officers should encourage DOD contractors to prepare the worksheet and provide them to DCAA to facilitate its review of final vouchers.

Our Review

Untimely Audit Team Review of Final Vouchers

We examined a list of final vouchers that DCMA asked the DCAA audit team to review between January 2010 and January 2011. During this period, the audit team received 128 final vouchers for review and, as of May 2011, had completed 24 of those reviews. On average, the audit team took 8 months to complete the reviews. The remaining 104 vouchers had been awaiting DCAA review completion for an average of 8 months.

Taking 8 months or more on average to complete a final voucher review is unacceptable, especially considering that these reviews take a relatively short amount of time to complete. In some cases, the delays jeopardized the ACO's ability to finish the closeout process within the timeframes specified in FAR 4.804-1(a)(3). Furthermore, the DCAA audit team delays have resulted in funds being canceled on some contracts. When contract funds are canceled, they are no longer available for paying amounts due under the contract. As a result, DOD components must use current-year appropriations to pay out the amounts due, thereby reducing the funds available for planned acquisitions. Our review disclosed that $11,938 in contract funds had canceled while awaiting a DCAA final voucher review in FY 2010, and $110,126 in contract funds were due to cancel in FY 2011.

Members of the DCAA audit team stated that the final voucher reviews were untimely primarily because the reviews were placed at the bottom of the team's priority list, in accordance with DCAA regional office guidance they received. The audit team also cited the following other barriers for timely completing the reviews:

- The audit team is understaffed.
- The contractor did not adequately list the contracts' terms and conditions for some of the vouchers.
- The auditor is awaiting supporting documentation for claimed costs included in some final vouchers.

The DCAA field audit office manager, in conjunction with the DCAA regional office, should work on eliminating these barriers to the extent possible. Any remaining barriers which are beyond the control of DCAA to eliminate (such as the contractor not providing supporting documentation in a timely manner) should be immediately brought to the attention of the ACO.

We noted that the DCAA audit team did not keep the ACO adequately apprised on the status of the final voucher reviews or the barriers it encountered in completing the reviews. The ACO had to periodically ask DCAA for a status of the reviews after waiting for the review results for several months. We suggest that DCAA field audit office manager meet with the DCMA field office at least monthly to discuss the status of the final voucher reviews and to alert the ACO of any barriers for timely completing them.

Occurrences of untimely final voucher reviews could be widespread since at least one of the DCAA regional offices designated final voucher reviews as low priority. DCAA should assess the timeliness of final voucher reviews on an agency-wide basis and take appropriate action based on that assessment.

DCAA Audit Team Preparation of a Cumulative Allowable Cost Worksheet (CACWS)

While we established that the DCAA audit team has not prepared a CACWS, we also found no regulation that requires DCAA to prepare one.

Some DOD contractors submit the CACWS as a schedule in the contractor's incurred cost submission, since contractors are responsible for maintaining records of cumulative allowable costs by contract/delivery order. We noted that this DOD contractor does not prepare a CACWS. Like DCAA, however, we found no regulation requiring the contractor to prepare a CACWS. Nevertheless, contractors should be encouraged to do so because of the benefits and efficiencies gained by DOD and the contractor in closing contracts. DCMA's Contract Closeout Guidebook states;

> ACOs should encourage contractors to submit a CACWS with their annual indirect cost rate proposal for audit by DCAA and update it within a reasonable time after rate settlement. The Contractor's ability to track cumulative allowable cost by contract is essential for an adequate billing system and necessary to ensure that cumulative amounts billed do not exceed total estimated contract cost ceilings.

Consistent with the above guidance, the DCMA field office should continue to encourage that the contractor submit a CACWS in order to facilitate the closure of contracts.

Recommendations, Management Comments, and Our Response

A.1. We recommend that the Director, Defense Contract Audit Agency:

a. Assess the timeliness of final voucher reviews on an agency-wide basis and take action to ensure the timeliness of the reviews.

DCAA Comments: The DCAA Director did not concur but agreed to take "alternative" action. The Director pointed out that the field audit office handled final voucher reviews as lower priority work in accordance with established agency-wide priorities at the time. The Director stated that that the need for DCAA services far exceeded available staffing; therefore, an Agency-wide risk-based audit approach was required to ensure audit resources were spent on the higher risk effort to best protect taxpayer dollars.

However, by January 31, 2012, the Director agreed to assess the Agency-wide prioritization of performing final voucher reviews as part of the Agency's incurred cost initiative, so that that the risks related to those reviews are properly considered in the Agency's overall risk assessments.

Our Response: While the Director, DCAA did not concur, his plan to assess the agency-wide prioritization of performing final voucher reviews is consistent with, and is responsive to the intent of, the recommendation. Accordingly, no additional response to this recommendation is required.

b. Provide the Office of Audit Policy and Oversight with the results of the assessment and actions taken in response to Recommendation A.1.a.

DCAA Comments: The Director, DCAA concurred. By February 24, 2012, DCAA will provide the results of the assessment and actions taken in response to Recommendation A.1.a.

A.2. We recommend that the Commander of the Defense Contract Management Agency field office remind contracting officers that they should encourage DOD contractors to prepare a Cumulative Allowable Cost Worksheet, in accordance with the Defense Contract Management Agency Contract Closeout Guidebook.

DCMA Comments: The Director, DCMA concurred. In a December 8, 2011, Information Memorandum signed by the Executive Director of Contracts, DCMA reminded the agency's contracting community that they should encourage DOD contractors to prepare a CACW.

Our Response: The action satisfies the intent of the recommendation. No additional response to this recommendation is required.

A.3. We recommend that the field audit officer manager of the Defense Contract Audit Agency audit team:

a. Ensure that the team completes final voucher reviews in a timely manner.

DCAA Comments: The Director, DCAA did not concur but agreed to take "alternative" action. The Director stated the field audit office manager will execute final voucher reviews based on available staffing and the agency-wide assessment being performed in response to Recommendation A.1.a. The field audit office manager will make changes to the work priorities based on the assessment.

Our Response: The proposed alternative action is responsive to the intent of the recommendation. No additional response to this recommendation is required.

b. Meet with the Defense Contract Management Agency field office at least monthly in FY 2012, in order to discuss the status of final voucher reviews and any barriers to completing them timely.

DCAA Comments: The Director, DCAA concurred. The field audit office manager and/or his chain of command will meet with DCMA to discuss all efforts (to include final voucher reviews) to ensure a complete understanding of each Agency's priorities based on available staffing. In order to discuss these Agency priorities, additional meetings may take place between more senior levels of management within DCAA and DCMA.

Our Response: The planned action is responsive to the intent of the recommendation. No additional response to this recommendation is required.

Finding B. DCAA Inappropriately Canceled a Request for a Progress Payment Review

We substantiated the allegation that a DCAA audit team inappropriately canceled a progress payment review that a DCMA ACO requested. The DCAA supervisor of the audit team canceled the audit based on direction from a Divisional Administrative Contracting Officer who did not have the authority to cancel it.

Allegation

The complainant alleged that DCAA improperly canceled a request for a progress payment review, without the knowledge or consent of the ACO who requested the review.

Background

Progress payments are a form of financing often available to contractors as work progresses on a Government contract. In May 2008, the DCMA ACO received a progress payment request from a DOD contractor and discovered that the request included $19,667 in government-furnished material costs. Since government-furnished materials are provided at no cost, the contractor should not have requested payment for them. On June 23, 2008, the ACO informed the contractor about the inclusion of government-furnished material costs, and the contractor withdrew its progress payment request the next day.

On July 2, 2008, following the withdrawal of the progress payment request, the ACO asked DCAA to conduct a review of the request. The DCAA audit team established an assignment to perform the audit. The ACO met with criminal investigators to report suspected irregular conduct on the part of the contractor for including the government-furnished materials in the request. At that time, the investigators elected to wait for the results of the DCAA progress payment audit before they decided whether to open a formal investigation.

On September 30, 2008 (3 months later), DCAA canceled its audit of the progress payment based on direction from another DCMA contracting officer assigned to the contractor's divisional headquarters office (known as the Divisional Administrative Contracting Officer [DACO]). On October 8, 2008, the ACO emailed DCAA to dispute the cancelation and to request that DCAA continue performing the audit. DCAA did not continue performing the audit as requested. On October 29, 2008, the investigators advised the ACO that there was insufficient evidence of an impropriety to warrant opening a formal investigation.

Our Review

We conducted several interviews with DCAA and DCMA employees who were involved with the requested progress payment audit. We placed most of the interviewees under oath, we recorded the interviews, and we obtained a transcription of the recordings. We

also obtained and reviewed applicable agency records (including emails). In addition, we reviewed applicable regulations and agency procedures.

According to Federal Acquisition Regulation (FAR) 32.503-4(b), the cognizant ACO has the authority to request an audit of a DOD contractor's progress payment under certain circumstances. For example, the ACO should ask for an audit of a progress payment when there is reason to question the contractor's progress payment certification. FAR 42.101 states that the contract auditor (DCAA) is responsible for submitting information and advice to the *requesting activity*.

As the duly appointed contracting officer, the ACO had the authority to request an audit of the contractor's progress payment, particularly since the ACO had legitimate concerns about its accuracy. Based on our review of applicable regulations and DCMA procedures, the DACO was not authorized to request that DCAA cancel the audit. Such direction was inappropriate because the DACO was not the cognizant contracting officer or a member of the activity (office) that requested the audit. The DACO should have known that he did not possess such authority. Likewise, the DCAA supervisor responsible for performing the audit should have known not to act on the DACO's direction. Both the DACO and the DCAA supervisor had in excess of 20 years of experience in their respective positions. DCMA and DCAA should consider appropriate administrative action for the unauthorized actions, and implement appropriate procedures and training to help prevent future occurrences.

The ACO indicated that neither the DCAA supervisor nor the DACO talked to him about their plan to cancel the audit he had requested. The DCAA supervisor pointed out that he could not perform the audit because the contractor had withdrawn the progress payment request. According to the DCAA supervisor, he had attempted to convince the ACO on several occasions that the audit should be canceled, but the ACO refused to do so. However, the DCAA supervisor acknowledged that he (or his higher level management) made no attempt to resolve the matter with the ACO's chain of command before he canceled the audit.

Regardless of whether the DCAA supervisor felt the review should be canceled, he had a responsibility to effectively communicate with the ACO (audit requester) and to document those communications. Our review of the DCAA audit file disclosed no written evidence that he had contacted the ACO to explain why the audit should be canceled. The field audit office manager approved the cancelation of the audit based in part on an undocumented assertion from the DCAA supervisor and the auditor that the audit cancelation had been coordinated with the ACO.

We noted other examples where the DCAA supervisor did not effectively communicate with the ACO before and after he canceled the audit. For example, the DCAA supervisor did not respond to the ACO's September 15, 2008, email in which the ACO asked him whether the audit would include a reconciliation of the progress payment request to the contractor's books and records. In addition, there is no evidence that the DCAA supervisor responded to the ACO's October 8, 2008, email in which the ACO disputed

the DACO's authority and requested that the DCAA supervisor continue performing the audit.

Recent DCAA Management Actions

GAGAS and DCAA policies and procedures emphasize the need to communicate effectively with the audit requester during the course of an audit. In addition, we noted that DCAA took the following recent actions:

- In August 2010, DCAA added the following guidance to chapter 1-403.3c. of the DCAA Contract Audit Manual, to clarify the guidance for resolving differences of opinion with contracting officers:

  > Auditors should discuss all significant disagreements (i.e., not limited to forward pricing) with the contracting officer and should attempt to resolve the issues at the lowest level possible. Should those discussions not result in a resolution, the process would begin with the Branch Manager discussing the basis for DCAA's disagreement with the contracting officer's higher-level management. If unresolved, the disagreement should continue to be elevated. Ultimately, the Regional Director should attempt to resolve the disagreement with the Component's Senior Executive or Flag Officer in the contracting officer's chain of command….

- In a September 9, 2010, memorandum, "Auditor Guidance on Auditor Communications ('The Rules of Engagement')," DCAA Headquarters reiterated and clarified existing guidance on coordinating and communicating with the requester during each phase of the audit.

- In June 2011, DCAA added the following paragraph to chapter 4-102d of the DCAA Contract Audit Manual:

  > Throughout each audit assignment maintain effective communication with Government contract administration personnel on significant matters, as necessary. Such communication alerts officials to matters needing immediate attention and allows them to take corrective action before the final report is completed. Document all discussions in the working papers, including date, participants' names and titles, and primary discussion points.

These actions should help to ensure that DCAA audit staff maintain and document effective communications with contracting officers, and resolve disagreements with contracting officers in an appropriate manner. As a result, we have no additional recommendations for improving DCAA procedures related to auditor communications.

Other Matter

DCAA auditors use an "audit lead" form to document information or a potential deficiency they discover that might require additional follow-up in another related audit assignment. In planning the related audit assignment, the audit lead form serves to alert the auditor of the information or potential deficiency and to conduct any audits steps necessary to properly consider it.

We found that neither the DCAA supervisor nor the auditor prepared an audit lead form after they learned that the contractor had included costs associated with government-furnished materials in its progress payment request. An audit lead form should have been prepared because this information was a strong indicator that the contractor's billing system might not have adequate controls for ensuring that billings to the Government exclude costs associated with government furnished materials. The audit lead form would have served to advise an auditor performing a related audit (such as a billing system audit) of the potential deficiency and to plan audit steps necessary to protect the Government's interests.

The DCAA supervisor explained that an audit lead form was not prepared because (1) the progress payment review was canceled, and (2) the information was obtained from an external source [DCMA in this case]. However, an audit lead form should have been prepared regardless of whether the audit was canceled or the information was obtained from an external source. The audit team should immediately prepare an audit lead form to ensure that the potential deficiency receives appropriate consideration in a related audit.

Based on the DCAA supervisor's explanation, there might be some confusion with respect to the auditor's responsibility for preparing audit lead forms. Our review of applicable DCAA procedures disclosed essentially no DCAA procedures covering the duties and responsibilities for preparing audit lead forms. DCAA needs to prepare such procedures to help ensure that auditors prepare audit lead forms when necessary.

Recommendations, Management Comments, and Our Response

B.1. We recommend that the Director, Defense Contract Audit Agency:

a. Consider appropriate administrative action for the inappropriate cancelation of a progress payment review based on direction from a contracting official who did not have proper authority.

DCAA Comments: The Director, DCAA concurred. According to the Director, the Agency carefully reviewed the actions of the field audit office personnel and concluded that the actions do not warrant administrative action. Since this incident, DCAA has implemented significant changes to its guidance on coordinating with Government contracting officials and resolving differences of opinion.

Our Response: The action satisfies the intent of the recommendation. No additional response to this recommendation is required.

b. Implement procedures and training to help ensure that audits are canceled only when the requesting activity asks that it be canceled.

DCAA Comments: The Director, DCAA did not concur. DCAA believes that the root cause of these issues relates to effective communication, and as the DOD Inspector General noted, DCAA has implemented several procedures to improve communications with our stakeholders.

Our Response: We agree with DCAA that the procedures it has recently implemented should satisfy the intent of the recommendation. No additional response to this recommendation is required.

c. Develop policies and procedures covering the duties and responsibilities for preparing audit lead forms.

DCAA Comments: The Director, DCAA concurred. By February 24, 2012, DCAA will issue guidance regarding audit leads. The guidance will address when to prepare an audit lead, proper supervisory review, appropriate follow-up procedures in the current or future assignments, and final disposition.

Our Response: The planned action is responsive to the recommendation. No additional response to this recommendation is required.

B.2. We recommend that the Director, Defense Contract Management Agency:

a. Consider appropriate administrative action for the Divisional Administrative Contracting Officer who improperly asked Defense Contract Audit Agency to cancel a progress payment audit without having such authority.

DCMA Comments: The Director, DCMA concurred. The Director agreed that it was improper for one contracting officer to cancel another contracting officer's request for audit services. Accordingly, DCMA will consider administrative action for the DACO.

Our Response: The planned action is responsive to the recommendation. No additional response to this recommendation is required.

b. Implement appropriate procedures and training to help ensure that contracting officials do not cancel an audit request without having such authority.

DCMA Comments: The Director, DCMA concurred. In a December 8, 2011, Information Memorandum, DCMA reinforced to all DCMA contracting officers that they should not take actions outside their authority.

Our Response: The action satisfies the intent of the recommendation. No additional response to this recommendation is required.

B.3. We recommend that the field audit office manager direct the Defense Contract Audit Agency audit team to:

a. Prepare an audit lead form reflecting that a DOD contractor had included government furnished materials in a progress payment.

DCAA Comments: The Director, DCAA concurred. The DCAA audit team prepared the audit lead on October 11, 2011.

Our Response: The action satisfies the recommendation. No additional response to this recommendation is required.

b. Consider the audit lead form in a related audit.

DCAA Comments: The Director, DCAA concurred. The DCAA audit team will consider the audit lead in any applicable future audits.

Our Response: The planned action is responsive to the recommendation. No additional response to this recommendation is required.

Finding C. Alleged DCAA Audit Team Failure to Perform a Requested Estimating System Audit

We did not substantiate the allegation that the DCAA audit team failed to perform an estimating system audit that the ACO requested. DCAA established an assignment to conduct an estimating system audit, but a duly-authorized successor to the contracting officer asked DCAA to cancel it.

Allegation

The complainant stated that DCAA did not perform an estimating system audit as requested, and that the DCAA supervisor did not forward the ACO's audit request to the local DCAA field audit office for assistance in accordance with DCAA procedures. The complainant believes that performing the audit might have resulted in corrective actions to the contractor's estimating system.

Background

In a May 19, 2008 email, the DCMA ACO requested an audit of the contractor's estimating system. In the request, the ACO listed six specific areas of concern that he asked DCAA address as part of the audit.

Our Review

We interviewed the DCMA ACO and DCAA personnel responsible for performing the requested estimating system audit.

Our review disclosed that the DCAA audit team established an assignment to perform the requested estimating system audit. In accordance with DCAA procedure, the DCAA field office also requested an assist audit from another DCAA field audit office to adequately cover the areas of concern expressed by the ACO. On January 29, 2009, while cognizance of the contractor's facility had temporarily changed to a successor contracting officer, the successor contracting officer canceled the request for audit on the basis that the audit was "no longer a priority." Unlike the cancelation of the progress payment discussed in Finding B of this report, the successor contracting officer had the authority to cancel the estimating system audit. While the ACO later resumed his duties as the contracting officer, we found no evidence that he asked DCAA to restart the audit. The ACO was not aware that the successor contracting officer had requested DCAA to cancel the audit.

Accordingly, we did not substantiate the allegation.

Appendix. Scope and Methodology

We performed this review from January 2010 through July 2011. We had to suspend the review for several months to address other priority work. To determine the validity of the Defense Hotline complaint, we:

- reviewed applicable regulations, professional standards, DCMA instructions and DCAA policies;
- interviewed appropriate personnel at DCAA and DCMA; and
- obtained and reviewed documents, emails, and other correspondence related to the allegations.

We conducted the review in accordance with the Quality Standards for Inspection and Evaluation.

Use of Computer-Processed Data

We did not rely on computer-processed data to perform this audit.

Prior Coverage

In the last 5 years, the DOD Inspector General has issued the following seven reports involving Defense Hotline complaints involving DCAA:

- Report No. DODIG-2012-002, Hotline Complaint Involving Auditor Independence at a Field Audit Office in the Defense Contract Audit Agency Western Region, October 6, 2012

- Report No. D2011-6-011, Report on Hotline Allegation Regarding Lack of Agency Guidance on the Currency of Audit Testing in the Defense Contract Audit Agency, September 21, 2011

- Report No. D2011-6-010, Failure of Defense Contract Audit Agency, Santa Ana Branch, to Provide Adequate Support in Response to a Request for Review of Interim Public Vouchers, September 2, 2011

- Report No. D2011-6-008, Hotline Complaint Regarding a Defense Contract Audit Agency Employee Conducting Private for-Profit Tax Business Activity on Government Time and Using Government Equipment, June 28, 2011

- Report No. D-2011-6-007, Hotline Allegations Involving a Field Audit Office in the Defense Contract Audit Agency Central Region, April 15, 2011

- Report No. D-2011-6-003, Hotline Complaint Regarding Allegations of Abusive Behavior by a Supervisor in the Defense Contract Audit Agency Northeastern Region, February 10, 2011

- Report No. D-2011-6-001, Hotline Allegations Involving Management Harassment of a Complainant in the Defense Contract Audit Agency Western Region, October 29, 2010

Defense Contract Audit Agency Comments

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FORT BELVOIR, VA 22060-6219

OFFICE OF THE DIRECTOR

October 21, 2011

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR POLICY AND OVERSIGHT, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to Department of Defense Inspector General (DoDIG) Draft Report on a Hotline Complaint Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency Mid-Atlantic Region (Project No. D2010-DIP0AI-0069.000)

Thank you for the opportunity to respond to the subject draft report.

DoDIG Recommendations.

A. DCAA Audit Team Did Not Provide Timely Assistance in the Closeout of Contracts

DoDIG Recommendation A.1.a. We recommend the Director, Defense Contract Audit Agency assess the timeliness of final voucher reviews on an agency-wide basis and take action to ensure the timeliness of the reviews.

DCAA Response. Do not concur, but agree to alternative action. As noted by the DoDIG, the Field Audit Office (FAO) considered its performance of these non-audit services to be lower priority work. This FAO opinion is consistent with established Agency-wide priorities at the time. The requirements for DCAA services far exceed available staffing; therefore, an Agency-wide risk-based audit approach is required to ensure audit resources are spent on the higher risk effort to best protect the taxpayers' dollars. DCAA management made an intentional decision to identify high risk priority audits based on available resources and final voucher reviews were not one of the high priorities. For FY 2011, the DCAA high priority audits included audits related to high risk forward pricing proposals, Overseas Contingency Contracts (OCO) and the DCMA reachback program. DCAA believes this audit effort represents a higher risk to the Department than a final voucher review.

However, we do agree that by January 31, 2012, DCAA will assess the Agency-wide prioritization of performing final voucher reviews to ensure that the risks related to those reviews are properly considered in the Agency's overall risk assessments. For FY 2012, DCAA commenced an Agency-wide incurred cost audit initiative to address the incurred cost backlog. This incurred cost initiative will determine the final voucher assignment priority for FY 2012 and forward.

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DoDIG Recommendation A.1.b. We recommend the Director, Defense Contract Audit Agency provide the Office of Audit Policy and Oversight with the results of the assessment and actions taken in response to Recommendation A.1.a.

DCAA Response. Concur. By February 24, 2012, DCAA will provide the results of our assessment of the Agency-wide audit priorities and actions taken in response to Recommendation A.1.a.

DoDIG Recommendation A.3.a. We recommend the field audit office manager of the Defense Contract Audit Agency audit team ensure that the team completes final voucher reviews in a timely manner.

DCAA Response. Do not concur, but agree to alternative action. We expect the DCAA manager to execute the defined Agency-wide priorities based on available staffing. If the Agency-wide priority placement of final voucher reviews changes as a result of the analysis described in our response to A.1.a., we expect the manager to make changes to his or her office work priorities accordingly.

DoDIG Recommendation A.3.b. We recommend the field audit office manager of the Defense Contract Audit Agency meet with the Defense Contract Management Agency (DCMA) field office at least monthly in Fiscal Year (FY) 2012, in order to discuss the status of final voucher reviews and any barriers to completing them timely.

DCAA Response. Concur. The DCAA manager and/or his chain of command will meet with DCMA to discuss all DCAA/DCMA efforts (to include final voucher reviews) to ensure a complete understanding of each Agency's priorities based on available staffing. In order to discuss these Agency priorities, additional meetings may take place between more senior levels of management within DCAA and DCMA.

B. DCAA Inappropriately Canceled a Request for a Progress Payment Review

DoDIG Recommendation B.1a. We recommend the Director, Defense Contract Audit Agency consider appropriate administrative action for the inappropriate cancelation of a progress payment review based on direction from a contracting official who did not have proper authority.

DCAA Response. Concur. We carefully reviewed the DODIG report findings and considered whether administrative action was appropriate. We concluded that the actions of the field audit office personnel do not warrant administrative action. Since the time this incident occurred in 2008, DCAA has implemented significant changes to the DCAA Contract Audit Manual and audit guidance regarding coordinating and communicating with Government contracting officials and for resolving differences of opinion with Government officials.

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DoDIG Recommendation B.1.b. We recommend the Director, Defense Contract Audit Agency implement procedures and training to help ensure that audits are canceled only when the requesting activity asks that it be canceled.

DCAA Response. Do not concur. We do not believe training and new procedures are warranted for this isolated case. DCAA believes that the root cause of these issues relates to effective communication, and as the DoDIG noted, DCAA has implemented several procedures to improve communications with our stakeholders.

DoDIG Recommendation B.1c. We recommend the Director, Defense Contract Audit Agency develop policies and procedures covering the duties and responsibilities for preparing audit lead forms.

DCAA Response. Concur. By February 24, 2012, DCAA will issue guidance regarding audit leads. The guidance will address when to prepare an audit lead, proper supervisory review, appropriate follow-up procedures in the current or future assignments, and final disposition of the audit lead.

DoDIG Recommendation B.3.a. We recommend that the field audit office manager direct the Defense Contract Audit Agency audit team to prepare an audit lead form reflecting that a DOD contractor has included government furnished materials in a progress payment.

DCAA Response. Concur. The DCAA audit team prepared this audit lead on October 11, 2011.

DoDIG Recommendation B.3.b. We recommend that the field audit office manager direct the Defense Contract Audit Agency audit team to consider the audit lead form in a related audit.

DCAA Response. Concur. The DCAA audit team will consider the audit lead in any applicable future audits.

Questions regarding this memorandum should be directed to the undersigned at [redacted], Assistant Director, Internal Review Directorate, [redacted]

Patrick J. Fitzgerald
Director

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Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
3901 A AVENUE, BUILDING 10500
FORT LEE, VIRGINIA 23801-1809

MEMORANDUM FOR: DEPARTMENT OF DEFENSE, ASSISTANT INSPECTOR GENERAL, ACQUISITION AND CONTRACT MANAGEMENT

SUBJECT: Comments on OIG Draft Report Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency Mid-Atlantic Region (Project No. D2010-DIP0AI-0069.000)

Reference: Draft Report Project No. D2010-DIP0AI-0069.000

We have attached the Headquarters; Defense Contract Management Agency's comments as requested for the subject follow up.

Please direct any further comments or questions to [redacted], Director, Contracts Policy, at [redacted]

Charlie E. Williams, Jr.
Director

Attachment:
As stated

DCMA Comments on OIG Draft Report Concerning Inadequate Audit Services Provided by an Audit Team in the Defense Contract Audit Agency Mid-Atlantic Region (Project No. D2010-DIP0AI-0069.000)

Recommendation A.2: We recommend that the Commander of the Defense Contract Management Agency (DCMA) field office remind contracting officers that they should encourage DOD contractors to prepare a Cumulative Allowable Cost Worksheet (CACW), in accordance with the Defense Contract Management Agency Contract Closeout Guidebook.

DCMA Response: We concur with the recommendation to remind contracting officers they should encourage DoD contractors to prepare a CACW. We will reinforce this recommendation in an Information Memorandum signed by the Executive Director of Contracts to the agency's contracting community no later than 30 October 2011.

Recommendation B.2: We recommend that the Director, Defense Contract Management Agency:

a. Consider appropriate administrative action for the Divisional Administrative Contracting Officer who improperly asked Defense Contract Audit Agency to cancel a progress payment audit without having such authority.

DCMA Response: We concur that it was improper for one contracting officer to cancel another contracting officer's request for audit services. We will consider the recommendation of administrative action for the Divisional Administrative Contracting Officer.

b. Implement appropriate procedures and training to help ensure that contracting officials do not cancel an audit request without having such authority.

DCMA Response: We will reinforce that contracting officers should not take actions outside their authority in an Information Memorandum signed by the Executive Director of Contracts to the agency's contracting community no later than 30 October 2011.

Inspector General
Department of Defense