



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

AUG 24 2009

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Review of the Defense Contract Audit Agency Quality Control System (OIG Report No. D-2007-6-006) and GAO Draft Report, "DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform" (GAO-09-468)

Our May 2007 External Review of the Defense Contract Audit Agency (DCAA) Quality Control System provided DCAA with an adequate opinion on its internal quality control system while still identifying significant audit quality problems. However, our significant findings in 2007 coupled with the results of the July 2009 Government Accountability Office (GAO) draft report, "DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform" (GAO-09-468), necessitates that we take further action. We have determined that it is not prudent to allow the adequate opinion from our May 2007 report to carry forward. Therefore, effective August 26, 2009, our adequate opinion will no longer apply to the DCAA system of quality control and will require further actions on your part. Specifically, we recommend the following be implemented immediately:

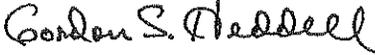
1. After August 26, 2009, all DCAA audits identified as being in compliance with generally accepted government auditing standards (GAGAS) must be qualified with a modified GAGAS statement noting an exception to compliance with the Quality Control and Assurance standard.
2. DCAA should publicly disclose on the DCAA website GAO's concerns regarding the reliability of DCAA audit reports issued during the period covered by this office's May 2007 opinion.

As requested by your July 30, 2009, letter to my office, we have started preparing for the external quality control review ("peer review") of DCAA for the period ending September 30, 2009. On August 5, 2009, we announced that project under the title "Evaluation of the Defense Contract Audit Agency Quality Assurance Program" (Project No. D2009-DIP0AC-0283.000). The results of this evaluation will be used in formulating our overall opinion of the DCAA quality control system. The overall opinion will also take into consideration repeated non-compliances with Government Auditing Standards identified in our May 2007 and December 2003 opinion reports on the DCAA quality control system.

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This action is necessary to maintain the integrity of this office's oversight responsibilities for audits conducted by Department of Defense agencies. This memorandum is being distributed to the recipients of our May 1, 2007, opinion report, and will be posted with the May 2007 opinion report on our DoDIG website.

Please contact me or Mr. Charles W. Beardall at (703) 602-1017 or Ms. Carolyn R. Davis at (703) 604-8877 if you have any questions.


Gordon S. Heddell

cc: Under Secretary of Defense
(Comptroller)/Chief Financial Officer

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