

# Inspector General

United States  
Department *of* Defense



Oversight Review

September 21, 2011

Report on Hotline Allegation Regarding Lack of  
Agency Guidance on the Currency of Audit Testing in  
the Defense Contract Audit Agency

Report No. D-2011-6-011

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## Acronyms

AICPA	American Institute of Certified Public Accountants
CAM	Contract Audit Manual
DCAA	Defense Contract Audit Agency
EVMS	Earned Value Management System
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IG	Inspector General



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

September 21, 2011

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Report on Hotline Allegation Regarding Lack of Agency Guidance on the  
Currency of Audit Testing in the Defense Contract Audit Agency  
(Report No. D-2011-6-011)

We are providing this report for your information and use. We reviewed a DoD Hotline complaint and substantiated the allegation that the Defense Contract Audit Agency (DCAA) lacks written guidance and agency-wide policy regarding the need to perform current testing of data during audits of contractor systems. We recommend that the Director, DCAA, develop written agency-wide policy and guidance on current audit testing to ensure that DCAA auditors obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in audits of contractor business and internal control systems. By November 2011, DCAA plans to issue guidance, which will include the requirement for auditors to perform sufficient testing of data that is relevant to the audit objectives, to perform testing of data generated by the system throughout the period under audit, and to issue timely audit reports.

We considered management comments on a draft of this report when preparing the final report. The Defense Contract Audit 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](mailto:carolyn.davis@dodig.mil).

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the typed name.

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



# Results in Brief: Hotline Allegation Regarding Lack of Agency Guidance on the Currency of Audit Testing in the Defense Contract Audit Agency

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## What We Did

We reviewed the DOD Hotline complaint alleging that the Defense Contract Audit Agency (DCAA) lacks written guidance and agency-wide policy regarding the need to perform current testing of data.

## What We Found

We substantiated the allegation that DCAA does not have any written guidance or agency-wide policy regarding the need to perform current testing of contractor data during audits of contractor business systems. In addition, we found that each regional office in DCAA has their own rule of thumb as to what they consider to be current audit testing and when retesting is required. We found that the data tested by the auditor from reports dated September 21, 2008, was no longer current and did not meet the field work standard in generally accepted government auditing standards (GAGAS) which requires auditors to obtain sufficient, appropriate evidence. It would be desirable to have written agency-wide audit policy and guidance from DCAA Headquarters to ensure consistency among the regions and field audit offices, and to ensure that auditors obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the audit report.

## What We Recommend

We recommend the DCAA Director develop written policy and guidance to ensure that DCAA auditors comply with GAGAS by obtaining sufficient evidence to provide a reasonable basis for the conclusion that is expressed in audits of contractor business and internal control systems. Specifically, the agency-wide written policy and guidance should require auditors to perform sufficient testing of current data and testing of data generated by the system throughout the period under audit. Further, the guidance should require auditors to perform retesting or expand testing if the data tested is no longer current.

## Management Comments and Our Response

In responding to the June 20, 2011 draft of this report, the Director, DCAA agreed with our findings and recommendations. Therefore, no additional comments are required. Please see the recommendations table on the following page.

United States Department of Defense  
Office of Inspector General  
Report No. D-2011-6-011  
(Project No. D2010-DIP0AI-0117.000)  
September 21, 2011

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Director, Defense Contract Audit Agency		1.

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# Introduction

## Objective

We conducted this review to determine whether the complainant's allegation received by the DOD Hotline could be substantiated. The complainant alleged that the Defense Contract Audit Agency does not have any written guidance or agency-wide policy regarding the need to perform current testing of contractor data.

See Appendix A for details of our scope and methodology.

## Background

### ***Defense Contract Audit Agency (DCAA)***

In accordance with DOD Directive 5105.36, DCAA performs contract auditing and provides accounting and financial advisory services in connection with the negotiation, administration and settlement of 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 has several field audit offices.

### ***Government Accountability Office (GAO)***

GAO issued two reports addressing the requirement that auditors perform sufficient testing to express an opinion on the subject under audit, including one in July 2008<sup>1</sup> and the other in September 2009.<sup>2</sup> These reports noted that generally accepted government auditing standards require auditors to perform sufficient testing and obtain sufficient evidence to express an opinion on the subject matter. The 2009 report found audit quality problems at DCAA offices nationwide, including insufficient audit testing on its internal control reviews. The report notes that DCAA's secondary objective on audits of contractor systems and controls is to determine the degree of reliance that can be placed on the contractor's internal controls as a basis for planning the scope of other related audits. The report found that 33 of the 37 internal control audits did not include sufficient testing of internal controls to support auditor conclusions and opinions. DCAA uses the results of contractor systems and internal control audits to assess risk and plan the nature, extent, and timing of tests for other contractor audits and other assignments.

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<sup>1</sup> Report No. GAO-08-857, "DCAA AUDITS: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated," July 22, 2008.

<sup>2</sup> Report No. GAO-09-468, "DCAA AUDITS: Widespread Problems with Audit Quality Require Significant Reform," September 23, 2009.

## ***Generally Accepted Government Auditing Standards***

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 (CAM) prescribes auditing policies and procedures for performing audits in support of the DCAA mission. The CAM incorporates GAGAS into its guidance.

DOD Instruction 7600.2 dated April 27, 2007, "Audit Policies," requires that all independent audit and attestation engagements of DOD organizations, programs, activities, and functions be conducted in accordance with GAGAS as issued by the Comptroller General of the United States. GAGAS provides the framework for auditors to perform high-quality audit work with competence, integrity, objectivity, and independence. Under GAGAS, auditors must prepare audit documentation in sufficient detail to provide a clear understanding of the work performed, including the nature, timing, extent, and results of audit procedures performed; the evidence obtained and its source; and the conclusions reached. The audit documentation should contain support for the report's findings, conclusions, and recommendations.

GAGAS 6.04b requires the auditor to obtain sufficient and appropriate evidence to provide a reasonable basis for the conclusion that is expressed in the report. The evidence provided in the report is more helpful if it is current.

# **Finding**

## **Lack of Agency Guidance on the Currency of Audit Testing**

We substantiated the allegation that DCAA does not have any written guidance or agency-wide policy regarding the need to perform current testing of transactions during audits of contractor business and internal control systems.

### **Allegation**

The complainant alleged that DCAA lacks any written guidance or agency-wide policy regarding the “currency” of audit testing which is causing audit reports on contractor business system reviews to be delayed as a result of retesting.

### **Background**

In addressing the allegation, the auditor described an incident whereby he completed an audit of the contractor’s earned value management system (EVMS) for compliance with certain earned value management guidelines. During a review of the draft report in November 2009, the DCAA Eastern Region determined that the data reviewed by the auditor was not current and required the auditor to retest the data. The complainant alleged that the lack of written agency policy or guidance regarding the need to perform current testing led the Eastern Regional Director to require retesting.

The auditor reviewed and tested the most current Contract Performance Reports dated September 21, 2008 that were available at the time the audit started in December 2008. During the course of the audit, all transactions tested by the auditor came from the September 21, 2008 reports. The auditor completed the audit in August 2009. The supervisory auditor completed his review in November 2009 and submitted the draft report for review to the DCAA Eastern Region Technical Programs Division.

On November 9, 2009, the Eastern Regional Technical Programs Specialist telephoned the supervisory auditor and told him that she would like the auditor to perform “current” testing on more recent Contract Performance Reports. The auditor stated that he selected the most current Contract Performance Reports available at the start of the audit. At that time, no written guidance or policy related to a 6-, 9-, or 12-month testing policy existed. However, the data tested was no longer current by the time the audit was completed. To be sufficient and current, evidence supporting the audit opinion should be reasonably current as of the date of the audit report.

The Eastern Regional Technical Programs Specialist was concerned with the “age” of the Contract Performance Reports and related transaction testing performed by the auditor. The specialist noted in an email dated November 13, 2009 that the reports tested were dated September 21, 2008. The email stated that it is DCAA’s position that testing in a system review be as current as possible. However, there is no written agency-wide policy regarding DCAA’s position. In addition, the specialist stated that it is the Eastern

Regional Director's position based upon discussions held in DCAA Executive Steering Committee meetings that the data tested should be within a six- to nine-month period prior to the issuance of the audit report.

On November 16, 2009, a teleconference was held between the Regional Special Programs and Resident Office. It was noted that there is no written policy that an audit report must be issued six to nine months after the date of the data being audited in a system audit. The Eastern Regional Special Programs Manager requested that the auditor update the testing on the system findings to current Contract Performance Reports.

On November 17, 2009, a Program Manager from Headquarters, now retired, emailed the Eastern Regional Technical Programs Specialist and said that the testing should be updated if it is more than 12 months old.

On November 18, 2009, the Eastern Regional Director decided that the testing should be updated for transactions that were tested and are older than nine months. As a result of the lack of written agency policy or guidance, the Eastern Regional Director directed the auditor to perform additional testing and determine if the original deficiencies were still at issue. Subsequently the Regional Audit Manager advised the Resident Auditor that the opinion stated in the audit report cannot be based on testing performed on contractor Contract Performance Report data from September 2008.

## **Our Review**

We obtained and reviewed the statements made by the auditor, Resident Office and Regional management, Eastern Regional Technical Programs Specialist, and the Director of the Eastern Region. Additionally we researched applicable regulations, DCAA Contract Audit Manual (CAM), and DCAA agency policies. The complainant performed all of his testing from the Contract Performance Reports dated September 21, 2008. The data tested was one year old by the time the complainant completed the audit. The auditor did not obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report. The evidence was not sufficient because the evidence was not current. Therefore, the Eastern Region required the auditor to retest using current data.

We substantiated the allegation that DCAA does not have written guidance or agency-wide policy related to the "current" testing of data. We agree that the lack of written agency-wide policy or guidance regarding "current" testing led the Eastern Regional Director to make a decision that the auditor must perform additional testing. All resident audit office and regional office managers we interviewed stated that DCAA does not have any guidance or agency-wide policy regarding the need to perform "current" testing during audits of contractor's internal control and business systems. The Chief, Technical Programs Division from each DCAA region all agreed that guidance and agency-wide policy from DCAA Headquarters is needed to regulate testing of current data to assist auditors in obtaining sufficient appropriate evidence to support conclusions in audits of contractor internal controls and business systems.

## **Regional Offices**

We found that the lack of written guidance or agency-wide policy resulted in inconsistent practices among the DCAA regional offices. We contacted the Chief, Technical Programs Division for each region. Each Chief stated that the data tested should be current. However, the regions are using different criteria to determine when retesting would be required before providing an opinion on the contractor's business or internal control systems. We asked the Chief, Technical Programs Division from each region the question: "When would retesting be required because the data tested is too old to give an audit opinion on the business or internal control system?" We received inconsistent answers as noted in Table 1 (below).

**Table 1. Region Responses on Data Retesting**

<b>Region</b>	<b>Retesting would be required if the data tested were older than the following period</b>
<b>Eastern</b>	Older than 9 months
<b>Northeastern</b>	Older than 12 months
<b>Central</b>	Older than 6 months
<b>Western</b>	Older than 12 months
<b>Mid-Atlantic</b>	Older than 9 months
<b>Field Detachment</b>	Older than 9 months

The lack of written guidance and agency-wide policy from DCAA Headquarters has created inconsistent treatment among the five regions and the Field Detachment. All regions agree that an opinion must be provided based on data that is relatively current. Written guidance and policy from DCAA Headquarters is expected; but, no written policy has been provided. Written guidance and agency-wide policy would advise auditors of the requirement to perform "current" testing to obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report.

## **Headquarters**

The Chief, Auditing Standards Division, DCAA Headquarters acknowledged that DCAA does not have a written policy stating a specific time frame beyond which testing in audits of contractor business systems would be considered outdated. Based on current DCAA policy, audit reports on contractor systems are relied on by DCAA as a basis for assessing control risk in related audits for a period of two to four years assuming no changes to the system. DCAA Headquarters believes that the appropriate exercise of professional judgment would generally dictate that to be sufficient and appropriate, the evidence supporting the audit opinion should be reasonably current as of the date of the audit report. As a general rule, when DCAA Headquarters receives questions regarding this issue, they advise regions and field audit offices that testing should generally be no more than 9 to 12 months old when the audit report is issued. However, DCAA Headquarters has not provided any written guidance or policy on the subject.

DCAA Memorandum for Regional Directors (09-PAS-020(NR)), dated October 9, 2009, stated that new guidance is expected to be issued in the second quarter of FY 2010 for audits of contractors' billing systems and audits of contractors' control environment and overall accounting systems. We are not aware that DCAA Headquarters issued any new guidance as mentioned in this memorandum.

### ***Applicable Criteria***

In performing its audits, DCAA states that it follows generally accepted government auditing standards (GAGAS). GAGAS 1.23a covering examination-level engagements require that auditors obtain sufficient, appropriate evidence to provide a reasonable basis to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects. Also, GAGAS 6.04b requires the auditor to obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report. The evidence provided in the report is more helpful if it is current.

- The Government Accountability Office (GAO) Report GAO-09-468 found that 33 of 37 internal control audits it reviewed did not include sufficient testing of internal controls to support auditor conclusions and opinions. The GAO found that an auditor tested only two, three, or sometimes five transactions to support audit conclusions. In another instance, an auditor tested four vouchers that were all processed on the same day out of the 8-month period covered by the audit.

The GAO report states, for internal control audits which are relied on for 2 to 4 years and sometimes longer, the auditors would be expected to test a representative selection of transactions across the year and not transactions for just one day, one month, or a couple of months. An auditor should use a population covering a 12-month period if the assignment is designed to cover a 1-year period.

Further, the GAO report found that 6 of the 37 audit reports were not issued at the time the work was completed. Because testing was not updated or was not sufficiently updated, the reported audit opinions which related to controls at the time the reports were issued, were not adequately supported and may have been inaccurate. GAO recommended that DCAA revise DCAA audit policy and update DCAA's CAM as appropriate, to provide appropriate guidance on what constitutes sufficient testing to comply with GAGAS.

The complainant, in providing an opinion on the contractor's EVMS, reviewed only those Contract Performance Reports dated September 21, 2008. The complainant had 17 findings and prepared a 90-page audit report. He reviewed 13 earned value management guidelines on two different earned value management systems at Northrop Grumman Naval Shipyard. One system is on the nuclear aircraft carrier and the other system is on the nuclear submarine. The complainant audited the Contract Performance Reports issued on both systems. The draft report was sent to the Eastern Region for review in November 2009. As a result, the Eastern Regional Director required the auditor to update the testing to review current contract performance reports. We do not disagree with the Regional Director's decision. The auditor should have tested a representative selection of

transactions across the year and not just transactions from reports issued on just one day. We observed that for very large projects such as this, the data tested will never be current unless such audits are scoped and resourced adequately. This particular audit only had two auditors assigned. Cost Performance Reports are submitted monthly for the nuclear aircraft carrier and are submitted quarterly for the nuclear submarine. The data tested by the auditor was not current and did not consist of sufficient appropriate evidence to provide a reasonable basis for the audit conclusion.

We substantiated the complainant's allegation that there is no written agency-wide policy or guidance regarding the need to perform testing of "current" data to support an opinion of the contractor's system. We recommend that DCAA Headquarters develop written agency-wide policy and guidance on the need to test current data to support opinions on the contractor's internal controls and business systems. The policy and guidance should include criteria when the auditor should expand testing and perform additional work.

## **Recommendation, Management Comments, and Our Response**

### **1. We recommend that the Director, Defense Contract Audit Agency,**

**Develop written policy and guidance to ensure DCAA auditors comply with generally accepted government auditing standards by obtaining sufficient evidence to provide a reasonable basis for the conclusion that is expressed in audits of contractor's internal controls and business systems. Specifically, the written policy and guidance should include the requirement for auditors to perform:**

- (a) Sufficient testing of current data.**
- (b) Testing of data generated by the system throughout the period under audit.**
- (c) Retesting or expand testing if the data tested is no longer current.**

### ***Management Comments***

The Director concurred. By November 2011, DCAA will issue guidance, which will include the requirement for auditors to (i) perform sufficient testing of data that is relevant to the audit objectives, including the period or point in time covered by the report, (ii) perform testing of data generated by the system throughout the period under audit, and (iii) issue timely audit reports. For audits of contractor business systems, DCAA will perform compliance attestation engagements and report on the contractor's compliance during a period of time or as of a point in time, consistent with the applicable attestation reporting standards (AT 601.55b) in AICPA's Statements on Standards for Attestation Engagements. Circumstances where auditors would need to expand testing to

obtain sufficient evidence for the conclusions expressed in the report should be limited since the transactions being evaluated in the audit will coincide with the defined period covered by the audit. DCAA agrees with the guidance in GAGAS A8.02g, that the evidence provided in the report is more helpful if it is current and, therefore, timely issuance of the report is an important reporting goal for auditors.

### ***Our Response***

The comments are responsive and no further comments are required. We will monitor the effectiveness of the new guidance and the timeliness of audit reports. The timely issuance of audit reports on contractor business systems is essential to the success of the new agency policy. Audits of contractor business systems should be current and audit reports on contractor business systems should be issued timely to protect the taxpayer's interests.

## Appendix. Scope and Methodology

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency “Quality Standards for Inspection and Evaluation.” To determine the validity of the Hotline complaint addressed in this report, we:

- interviewed the complainant, Eastern Region’s supervisor, resident auditor, regional audit manager, and regional technical programs specialist, and obtained additional documents related to the complaint;
- obtained inquiry from Headquarters and Regional offices, DCAA;
- reviewed applicable DCAA policies and procedures, such as the Defense Contract Audit Manual, and audit programs; and
- reviewed applicable GAGAS.

We performed this review from April 2010 through May 2011.

### Use of Computer-Processed Data

We did not rely on any computer-processed data as part of our review.

### Prior Coverage

During the last 5 years, the GAO and the Department of Defense Inspector General (DOD IG) have issued 3 reports related to the requirement that DCAA auditors perform sufficient testing to express an opinion on the subject under audit. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

#### **GAO**

Report No. GAO-09-468, “DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform,” September 23, 2009

Report No. GAO-08-857, “DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated,” July 22, 2008

#### **DOD IG**

Report No. D-2009-6-009, “Defense Contract Audit Agency Audit Work Deficiencies and Abusive Work Environment Identified by the Government Accountability Office,” August 31, 2009

# Defense Contract Audit Agency Comments



DEFENSE CONTRACT AUDIT AGENCY  
DEPARTMENT OF DEFENSE  
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FORT BELVOIR, VA 22060-6219

OFFICE OF THE DIRECTOR

July 20, 2011

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

ATTENTION: Mr. Randolph R. Stone

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft  
Report, *Hotline Allegation Regarding Lack of Agency Guidance on the Currency of  
Audit Testing in the Defense Contract Audit Agency*, dated June 20, 2011 (Project  
No. D2010-DIP0AI-0117.000)

Thank you for the opportunity to respond to the subject draft report, *Hotline Allegation  
Regarding Lack of Agency Guidance on the Currency of Audit Testing in the Defense Contract  
Audit Agency*. The following are DCAA's comments and responses to each of the  
recommendations.

**Allegation:** The complainant alleged that DCAA lacks any written guidance or agency-wide  
policy regarding the "currency" of audit testing, which is causing audit reports on contractor  
business system reviews to be delayed as a result of retesting.

**DoDIG Recommendation 1.a:** We recommend that the Director, Defense Contract Audit  
Agency, develop written policy and guidance to ensure DCAA auditors comply with generally  
accepted government auditing standards by obtaining sufficient evidence to provide a reasonable  
basis for the conclusion that is expressed in audits of contractor's internal controls and business  
systems. Specifically, the written policy and guidance should include (a) the requirement for  
auditors to perform sufficient testing of current data.

**DCAA Response:** Concur in principle. By November 2011, DCAA will issue guidance, which  
will include the requirement for auditors to perform sufficient testing of data that is relevant to  
the audit objectives, including the period or point in time covered by the report. Please see our  
response to Recommendation 1c for further explanation.

**DoDIG Recommendation 1.b:** We recommend that the Director, Defense Contract Audit  
Agency, develop written policy and guidance to ensure DCAA auditors comply with generally  
accepted government auditing standards by obtaining sufficient evidence to provide a reasonable  
basis for the conclusion that is expressed in audits of contractor's internal controls and business  
systems. Specifically, the written policy and guidance should include (b) the requirement to  
perform testing of data generated by the system throughout the period under audit.

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**SUBJECT:** Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, *Hotline Allegation Regarding Lack of Agency Guidance on the Currency of Audit Testing in the Defense Contract Audit Agency*, dated June 20, 2011 (Project No. D2010-DIP0AI-0117.000)

**DCAA Response:** Concur. By November 2011, DCAA will issue guidance that will include the requirement for auditors to perform testing of data generated by the system throughout the period under audit.

**DoDIG Recommendation 1.e:** We recommend that the Director, Defense Contract Audit Agency, develop written policy and guidance to ensure DCAA auditors comply with generally accepted government auditing standards by obtaining sufficient evidence to provide a reasonable basis for the conclusion that is expressed in audits of contractor's internal controls and business systems. Specifically, the written policy and guidance should include (c) the requirement to perform retesting or expand testing if the data tested is no longer current.

**DCAA Response:** Concur in principle. By November 2011, DCAA will issue guidance that will address the testing needed to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusions expressed in the report. That guidance will require sufficient testing of data relevant to the audit objectives, including the period or point in time covered by the report. The guidance will also emphasize the need to issue a timely audit report.

However, DCAA is adopting a new approach for auditing business systems that will determine compliance with the criteria established by the DFARS interim rule on contractor business systems in lieu of opining on the overall effectiveness of the contractor's internal controls. DCAA will perform compliance attestation engagements and report on the contractor's compliance during a period of time or as of a point in time, consistent with the applicable attestation reporting standards (AT 601.55b). Under these conditions, circumstances where auditors would need to expand testing to obtain sufficient evidence for the conclusions expressed in the report should be limited since the transactions being evaluated in the audit will coincide with the defined period covered by the audit. The attestation standards for compliance examination engagements require auditors to consider two types of events that occur after the end of the period addressed by the report and prior to the issuance of the report. Those events include (1) events that provide additional information about compliance during the reporting period and (2) noncompliance that occurs subsequent to the period being reported on but before the date of the report (AT 601.50 - 601.52). Our guidance on the new approach will be consistent with those standards.

We agree with the guidance in GAGAS A8.02g, that the evidence provided in the report is more helpful if it is current and, therefore, timely issuance of the report is an important reporting goal for auditors. We are considering procedures that will alleviate some of the barriers to timely issuance of reports on contractor business systems. Such procedures include adopting a team approach when performing large complex business system audits, considering various methods that would leverage and align our limited resources with more focused business system audits, and providing real-time information to contracting officers when deficiencies in contractors' business systems are identified.

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Questions regarding this memorandum should be directed to Mr. Ken Saccoccia, Assistant Director, Policy and Plans Directorate, at (703) 767-3280.

  
Patrick J. Fitzgerald  
Director



# Inspector General Department of Defense

