

## DCAA, SAQs, and IRRs

Written by Nick Sanders

Wednesday, 17 August 2011 00:00

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As many of us have learned (to our continued frustration and chagrin) over the past couple of years, DCAA has continued to struggle to get its act together. It has, as America's premier contract audit agency, fallen far short of the goals of providing high, quality, timely and useful audit reports. Unwilling or unable to rely on the audit reports produced by its auditors—the very auditors it is responsible for training—it has implemented multiple layers of management review in what perhaps has been a vain attempt to force audit quality downwards.

In our view the agency's efforts have resulted in little measurable progress towards its goals. Instead, the reviews have delayed issuance of critical audit reports (frequently for indefinite periods), and led to the publicly reported phenomenon of "papering" working paper files to avoid any review "gigs," while in reality such "papering" adds nothing of substance.

See, for example, [this article](#) in which we discussed a DOD Inspector General independent assessment of the quality of DCAA's audit of The Aerospace Corporation. We told readers of the many DOD IG findings, including this one—

DCAA did not adequately document the internal controls tested for the cash management and special tests and provisions requirements, the criteria used for activities allowed or unallowed and allowable costs/cost principles compliance testing, and the coordination of the scope of audit work performed by the DCAA Field Detachment office. In addition, the audit file contained a voluminous amount of work papers, many of which simply duplicated the same information. Although we acknowledge that the auditors believed that they were providing a good audit trail, we found the format and content of the working papers lacked clarity and contributed to instances of inconsistencies between working papers and the lack of required information in other working papers.

The result of DCAA's new management philosophy, as we all now know far too well, is a dramatic (some might say precipitous) drop in agency productivity. (We told you about that unfortunate trend [here](#).) Following our article, the Project on Government Oversight (POGO) [told](#) a Senate Subcommittee that, in GFY 2010, DCAA had actually cancelled more audits than it had completed.

It's become apparent to most of us that the more DCAA tries to dig itself out of the hole created by its past and current leadership, the deeper that hole becomes .... Now we have two new DCAA management initiatives to report. These are two new efforts to force audit quality downwards in lieu of alternate approaches, such as (a) training auditors and providing them with adequate guidance and supervision, and/or (b) creating a workforce where quality is actually embedded into the agency culture. (Just to name two....)

The first initiative is that each FAO (Field Audit Office) will now have a new position, the Special Assistant for Quality (SAQ), who reports directly to the FAO Manager. DCAA has always had a SAQ at the Headquarters level; what's new here is deploying SAQs at the FAO level. Now, to

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our knowledge DCAA has not yet publicly released a MRD (Memorandum for Regional Directors) discussing the qualifications and role/responsibilities of the FAO SAQ. But from what we've experienced first-hand, the SAQ must review and sign-off on all FAO audit reports, to provide assurance that the working papers meet quality standards.

The thing is, the SAQ position is a full-time role. Consequently, DCAA (once again) is moving an experienced senior auditor from a Supervisory Auditor or Technical Specialist role and into a management position that does not directly affect the performance of audit procedures. We've commented on this unfortunate trend before, and this latest news does nothing to change our mind. We continue to maintain that DCAA's recent reorganizational efforts have created a vacuum that has sucked senior auditors upwards, leaving a void where experienced Supervisory Auditors and Tech Specialists used to be. This trend, of course, has exacerbated the agency's audit quality problems.

Moreover, we would assert that the last thing DCAA needs right now is yet another layer of management review. The agency is already experiencing prolonged delays in issuing audit reports. (We've personally experienced durations in excess of one year as audit reports sit on Branch Managers' and/or Regional Audit Managers' desks awaiting review and sign-off.) Does DCAA really need another "review/question/follow-up/resubmit" loop? We would assert the answer to that question is a clear "no."

The second new initiative is discussed in a Memorandum for Regional Directors (MRD) dated July 26, 2011. This MRD ([11-PPS-012\(R\)](#)) is entitled "Audit Guidance on Independent Reference Reviews." These new Independent Reference Reviews (IRRs) have a rather unique meaning to the audit agency. As the MRD states—

Referencing is a process in which an experienced auditor, who is independent of the audit, verifies all significant facts, figures, and dates are correctly reported; that the findings are adequately supported by evidence in the audit documentation; and that the conclusions and recommendations flow logically from the evidence.

Effective with the issuance of the MRD, audit reports associated with certain assignments (as delineated in the MRD) must undergo an IRR prior to issuance of the report. Actually, the MRD states that the IRR will take place between the supervisory review and the issuance of the audit report. How the independent reviewer performs the IRR is documented in DCAA Instruction 7642.1, which is included as an attachment to the MRD. IRRs can only be performed by audit staff ranked GS-13 or higher. As the MRD states—

The IRR auditor must possess the knowledge and experience necessary to complete an effective review. The selection of the IRR auditor should be based on the potential reviewer's independence, objectivity, experience, and analytical ability. The IRR auditor must be someone

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not directly associated with the work on which the working papers and report are based, and must not be under the direct supervision of the cognizant supervisory auditor.

We looked, and assignments subject to IRR include—

- Incurred cost audits where auditable dollar value is \$100 million or more.
- Internal control audits.
- Earned Value Management System reviews.
- All CAS-related audits (except perhaps for Disclosure Statement adequacy reviews).
- Forward pricing assignments, including audits of Forward Pricing Rate Proposals.
- Post-award (“defective pricing”) audits.

As one might expect, there’s a process related to the IRR that includes resolution of issues raised by the review, and even a process for documenting “unresolved deficiencies” and forwarding them to the FAO Manager for resolution. But there’s more—

If the issues cannot be resolved at the FAO manager level, then the FAO manager will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Regional or Detachment Audit Manager (RAM/DAM) for resolution. Discussions of issues should include all parties. If the issues cannot be resolved at the RAM/DAM level, then the Regional or Detachment Audit Manager (RAM/DAM) will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Deputy Regional Director for resolution. The resolution should be clearly documented on the Independent Reference Review Unresolved Deficiency List.

Appendix 1 to Enclosure 3 of the MRD contains a “Independent Reference Review Checklist.” Appendix 4 to Enclosure 3 of the MRD contains an “Independent Reference Review Certification” that is to be executed by the IR Reviewer. We trust you are getting the picture ....

We have discussed these changes with current DCAA auditors, and we’ve learned that, originally, these two initiatives were separate. By that we mean that the FAO SAQ performed quality reviews and another, independent, GS-13 performed the IRRs. But such duplicative quality reviews were seen as being overly, well, duplicative, and thus the two initiatives were merged such that the FAO SAQ performs all necessary IRRs for the Branch. Thus, instead of two new quality reviews, there is really only one new quality review.

That last bit might be seen as a silver lining in the dark cloud of DCAA audit reviews.

To wrap this up, we continue to wail and moan and gnash teeth at the long-delayed reports that continue (in our view) to miss the quality mark. But we don’t think these new initiatives—which continue an unfortunate trend of imposing quality downwards instead of fostering it at the lower levels of the organization—are the right approach. It is quite certain

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that they won't do anything to speed up issuance of audit reports.