

## Recommendation 12: Require DCAA to obtain peer review from a qualified external organization.

### Problem

Peer reviews are designed to validate a professional service organization's compliance with professional standards. The peer review process can provide valuable outside perspectives and insights to the organization. According to GAGAS, the peer reviewer must (a) understand GAGAS, (b) be independent from the organization subject to peer review, and (c) collectively have enough knowledge to perform the peer review.<sup>1</sup>

DoDIG currently performs the peer review for DCAA; however, DoDIG's mission is vastly different than DCAA's and as a result the two organizations do not perform similar services. The audits DoDIG conducts are FAR different in scope, method, and purpose than contract audits conducted by DCAA.

### Background

According to the Inspector General (IG) Act of 1978 (as amended), DoDIG is required to:

*(10) conduct, or approve arrangements for the conduct of, external peer reviews of Department of Defense audit agencies in accordance with and in such frequency as provided by Government auditing standards as established by the Comptroller General of the United States.*<sup>2</sup>

DoDIG has not exercised the option to use another organization to conduct peer review of DCAA. In addition to the peer review, the IG Act directs DoDIG to directly "monitor and evaluate" DCAA for its work, as well as checking DoD organizations' responses to contract audit recommendations.<sup>3</sup>

### Findings

DoDIG cannot serve as an independent, qualified peer reviewer of DCAA while supervising DCAA in oversight of contract audits. More importantly, DoDIG auditors do not perform contract audits, do not advise contracting officers during preaward contract activity, and are not part of the acquisition team. For a peer review to be useful, the reviewer must be well-versed on how the professional standards apply to the services provided. The effect of the DoDIG peer review of DCAA is to further remove DCAA auditors from being advisors to contracting officers and members of the acquisition team.

The Blue Ribbon Commission on Defense Management (also referred to as the Packard Commission) recommended the Undersecretary of Defense (Acquisition) provide overall policy guidance for contract audits.<sup>4</sup> At the time of the recommendation (and continuing to today), the DoDIG has the role of developing policy for contract audit and evaluating audit performance as well as the peer review of

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<sup>1</sup> GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G, accessed November 20, 2017, <http://www.gao.gov/assets/590/587281.pdf>.

<sup>2</sup> Inspector General Act of 1978, as amended, "Section 8, subsection (10)", accessed November 20, 2017, [https://www.ignet.gov/sites/default/files/files/igactasof1010\(1\).pdf](https://www.ignet.gov/sites/default/files/files/igactasof1010(1).pdf).

<sup>3</sup> Ibid.

<sup>4</sup> GAO, *Defense Management: Status of Recommendations by Blue Ribbon Commission on Defense Management*, GAO/NSIAD-89-19FS, 66, accessed November 24, 2017, <http://www.gao.gov/assets/90/88245.pdf>.

DCAA.<sup>5</sup> GAO noted that DoD did not adopt the Packard Commission recommendation to improve the acquisition system by reforming contract audit performance due to the statutory assignment of contract audit policy development and oversight to DoDIG through the IG Act.<sup>6</sup>

## **Conclusions**

DCAA peer review should be performed by an organization other than DoDIG. Congress should amend the targeted DoD-specific portions of the IG Act and other relevant sections of U.S. Code to DoDIG as the peer reviewer for DCAA.

DoDIG's continued monitoring and evaluation of DCAA's contract audits is problematic because DoDIG, as an enforcement agency, is not DCAA's peer. The conduct of a peer review by the IG creates a natural conflict and is not conducive to independent peer review espoused by audit standards. In contrast, an IPA can provide a peer review to DCAA that will accomplish the mission of a periodic peer review: professional review from similarly trained experts not otherwise responsible for the agency's day-to-day operations.

## **Implementation**

### ***Legislative Branch***

- Revise 10 U.S.C. § 2313b(e) to require periodic peer review of DCAA by a commercial auditor.

### ***Executive Branch***

- Amend the targeted DoD-specific portions of the IG Act to remove DoDIG as the peer reviewer for DCAA.

### ***Implications for Other Agencies***

- There are no cross-agency implications for this recommendation.

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<sup>5</sup> Inspector General Act of 1978, as amended, "Section 8, subsection (10)", accessed November 20, 2017, [https://www.ignet.gov/sites/default/files/files/igactasof1010\(1\).pdf](https://www.ignet.gov/sites/default/files/files/igactasof1010(1).pdf).

<sup>6</sup> GAO, *Defense Management: Status of Recommendations by Blue Ribbon Commission on Defense Management*, GAO/NSIAD-89-19FS, 66, accessed November 24, 2017, <http://www.gao.gov/assets/90/88245.pdf>.