

GAO Highlights

Highlights of [GAO-15-44](#), a report to Congressional Committees

Why GAO Did This Study

DCAA audits play a critical role in oversight of companies that provide goods and services to the Department of Defense. These defense companies also conduct their own internal audits. Section 832 of the NDAA for Fiscal Year 2013 (Pub. L. No. 112-239) required DCAA, among other things, to revise its audit guidance on documenting its requests for defense contractors' internal audit reports and ensuring the reports are used only for evaluating and testing the strength of internal audit controls.

The act required GAO to assess the revised guidance. This report assesses the extent to which DCAA's revised guidance (1) complied with the act, and whether selected requests for company internal audit reports were documented in accordance with requirements, and (2) contains safeguards to help ensure that companies' internal audit reports are used only for authorized purposes. GAO compared DCAA's revised guidance to the provisions of the act and examined a nongeneralizable, random sample of eight recent DCAA requests for companies' internal audits.

What GAO Recommends

GAO recommends that DCAA clarify its guidance and establish and monitor internal controls to help ensure that requests for company internal audits are fully documented in accordance with the act, and that the guidance defines authorized use. DCAA concurred with GAO's recommendations.

View [GAO-15-44](#). For more information, contact William T. Woods at (202) 512-4841 or woodsw@gao.gov.

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DEFENSE CONTRACT AUDIT AGENCY

Additional Guidance Needed Regarding DCAA's Use of Companies' Internal Audit Reports

What GAO Found

The Defense Contract Audit Agency (DCAA) revised its guidance in the Contract Audit Manual to address the documentation requirements mandated by section 832 of the National Defense Authorization Act (NDAA) for Fiscal Year 2013, but implementation has been inconsistent. The revisions include provisions for DCAA auditors to document (1) that access to company internal audit reports is necessary to an ongoing DCAA audit, (2) the request sent to the company, and (3) the company's response. However, based on GAO's review of selected cases, implementing the changes has been inconsistent across the agency. GAO randomly selected eight requests for companies' internal audits and compared them to the mandated requirements and DCAA instructions provided to its auditors as criteria to test whether or not the three documentation requirements had been properly recorded. None of eight cases sampled had complete records for the three required documents. The figure below shows the results of GAO's examination of the eight requests.

Required Documentation for Eight Randomly Selected DCAA Requests to Companies for Internal Audit Reports

Internal audit	A	B	C	D	E	F	G	H
Recorded connection to DCAA audit								
Request to company for internal report								
Company's response included								

Documented
 Partially documented
 Not documented

Source: GAO analysis of DCAA data. | GAO-15-44

DCAA's revised guidance is specific about physical safeguards for companies' internal audit information. For example, the Contract Audit Manual contains extensive guidance for physically securing proprietary information and specifies that the working papers should not include a copy of the companies' internal audit reports. However, the guidance is less specific about safeguards to prevent unauthorized use of internal audit reports; that is, using the reports for purposes other than evaluating the efficacy of internal controls or the reliability of the business systems. In particular, the guidance does not define authorized use, provide examples of authorized use, or identify a specific approach for implementing safeguards. Officials stated that plans for an electronic storage system for safeguarding companies' internal audits from unauthorized use are in process as well as guidance for using them. The planned electronic storage capability would provide limited access rights to companies' internal audit reports and thus help ensure better tracking and limit the potential for unauthorized use.