



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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September 30, 2008
08-D-009(R)

MEMORANDUM FOR ALL DCAA EMPLOYEES

SUBJECT: FY 2009 Audit Performance Measures

As I notified you on August 8, 2008, we initiated a project to assess the Agency's use of performance measures to determine whether we have the appropriate measures and whether the measures are implemented appropriately. The purpose of this memorandum is to share the results of the project and to discuss the appropriate use of the performance measures.

As a result of the project, we have taken the following actions:

- Eliminated 18 performance measures
- Identified nine performance measures with goals for use in FY 2009. Eight of the nine performance measures are new. We also identified three informational performance measures without goals. See Enclosure 1 for more details.
- Clarified the level at which each performance measure will be reported. All performance measures, except for Cost per Direct Audit Hour, will be reported at the following levels: Agency, Region, and FAO. Cost per Direct Audit Hour will be reported only at the Agency level.
- Eliminated "scorecards" at all levels of the organization.
- Disabled webmetrics.
- Developed new performance charts that will be provided monthly by Operations. This will be intranet based by November 15, 2008.
- By October 30, 2008, Operations will provide a presentation related to our performance measures for use in staff conferences.
- Limited authority to deviate from the Agency standard performance measures. New performance measures may be added only with the approval of the Director. Additional measures will be for unusual situations and are designed to be of limited duration to address problem areas.
- Provided a feedback mechanism for employees to provide suggestions to improve the performance measures by adding a selection to the suggestion program menu at <https://workflow.dcaaintra.mil/Task/AddSuggestion.asp>.
- Provided an anonymous website for feedback on the inappropriate use of the performance measures at <https://feedback.dcaaintra.mil/feedback.asp>.

The performance measures will be re-evaluated after six months to consider all suggestions received and to further refine the reporting process.

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Background

The primary purpose of performance measures (metrics, benchmarks, etc.) is to provide targets and indicators of performance by which satisfactory completion of the entity’s mission may be measured and improved. Performance measures are used in some form by most industry and government entities. Additionally, the Government Performance and Results Act of 1993 and implementing Office of Management and Budget (OMB) and Department of Defense guidance require agencies such as DCAA to develop and monitor performance measures to support our budget requests and to measure Agency results. The key to successful performance measures is to measure the right performance. The wrong type of behavior and/or results may occur if the wrong performance measures are used, or if the correct performance measures are used improperly.

In GAO Report GAO-08-857, issued July 22, 2008, the GAO reported that certain DCAA performance measures were leading FAOs to take “inappropriate short cuts—ultimately resulting in noncompliance with GAGAS and internal DCAA CAM guidance.” As a result of the GAO’s report, DCAA established a team made up of personnel from all Agency elements to assess (1) whether we have the appropriate performance measures and (2) whether the performance measures are implemented appropriately. As part of this project, the team queried the experiences and opinions of employees at all levels in the Agency through the use of numerous focus groups. The team also reviewed graduate-level thesis papers prepared by Agency employees who had reviewed the Agency’s use of performance measures.

Guidance

Quality audits must never be sacrificed for any reason. Emphasizing productivity over quality has never been the Agency’s intent. Performing audits timely and efficiently is important, but performing audits in accordance with generally accepted government auditing standards (GAGAS) is most important. After a thorough analysis, we eliminated 18 of our prior performance measures (Table 1). We also developed eight new performance measures, maintained one measure but only at the Agency level, and provided three informational (no goals) performance measures (Table 2).

Table 1 - Eliminated Performance Measures	
Forward pricing 30-day cycle time	Incurring Costs Issued with CACWS
Forward pricing 60-day cycle time	MOCAS Priority Audits
Forward pricing productivity	Electronic Audit Reports
Average hours for 236/280	Electronic Proposals
Incurring cost productivity	Direct Yield
Incurring Cost – no late reports	Pool to Base Ratio
Dollars Examined per Hour	Exception Dollars per Hour
Exceptions to Dollars Examined	ICAPS with Findings
Incurring Cost 6-12-6	Incurring Cost 6-24-6

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Table 2 – FY 2009 Performance Measures (see Enclosure 1)	
Quality – PCIE Opinion by DoDIG	Quality – GAGAS CPE
Quality – PCIE Professional Judgment Opinion by DCAA	Timeliness – Forward Pricing Issued by Revised Due Date
Quality – Quality Audit Report Checklist Question - Report Should Have Been Issued	Timeliness – Incurred Cost
Quality – Audit Reports with Findings	Efficiency – Cost per Direct Audit Hour
Quality – QM Usage in Audits	Informational – Three informational items covering savings to U.S. Taxpayer

All DCAA employees should contribute to the accomplishment of Agency goals. However, management and supervisors must be sensitive to the fact that most of the performance measures are intended to be Agency averages, and are generally not intended to be flowed down to the auditor level. Enclosure 1 contains a list of the performance measures for FY 2009 as well as a description of the purpose and measurement. We also included “keys for success” to reiterate some of the actions that can be taken related to each of the performance measures.

No other measures may be added by the regions, FAOs, supervisors, or Participative Work Teams (PWTs). In the unusual instance that a regional director desires a new measure, the request must be submitted to the Director and include justification for the need for the measure and the limited duration of the measure.

Webmetrics is being disabled. By November 15, 2008, Operations will provide intranet access for all DCAA employees to be able to view the FY 2009 performance measures to the FAO level, except for Cost per Direct Audit Hour. **Effective October 1, 2008, regions and FAOs, supervisors, and PWTs are required to disable all scorecards.** The only charts that are approved to be used for tracking and monitoring the performance measures are the charts provided by Operations.

Focus groups often complained about audit budgets being driven by the program plan and productivity measures rather than by a risk-based approach to the individual audit situation. While budgets are not technically performance measures, this complaint was so pervasive that we are re-emphasizing the Agency policy. The program plan should NOT be used to establish audit budgets. Audit budgets should be established through the use of zero-based budgeting (ZBB) (see CAM 3-103.2) and appropriate consideration of budget revisions in the event scope changes should be made. CAM 3-103(d) will be modified as shown in Enclosure 2 to reflect these changes.

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Concluding Remarks

We value suggestions from employees as we redesign our performance measurement system and revise any Agency policy. We also would appreciate your feedback on the FY 2009 performance measures. Suggestions and feedback may be sent directly to Operations by using this hyperlink: (<https://workflow.dcaaintra.mil/Task/AddSuggestion.asp>). You may anonymously report the misuse of performance measures to <https://feedback.dcaaintra.mil/feedback.asp>.

/signed/
April G. Stephenson
Director

Enclosures:

1. FY 2009 Performance Measures
2. Revisions to CAM 3-103(d)

DISTRIBUTION: E

FY 2009 Performance Measures

	Audit Performance Measure	Purpose/How Measured	Keys for Success
1	<p>Quality – Opinion Received from the DoDIG on PCIE Reviews.</p> <p>Goal: Unqualified Opinion.</p>	<p>Purpose: To validate the quality of DCAA’s internal quality control system.</p> <p>Measurement: Organizations conducting audits in accordance with GAGAS are required to have an external quality control review at least once every three years by an organization not affiliated with the organization being reviewed. These external quality control reviews are conducted based on guidelines established by the PCIE. DCAA’s external reviewer is the DoDIG. An unqualified opinion is the best opinion given and represents full compliance with auditing standards with no reportable deficiencies.</p>	<ul style="list-style-type: none"> • Audit report results must be adequately supported by the working papers, working papers must be documented in accordance with Agency policy, and the assignment must be properly supervised. (CAM 2-302.3 & 2-307) • Sufficient audit evidence must be documented to support the audit conclusions. (CAM 2-302.2 & 3-104.14) • Differences in opinion between auditor and supervisor must be addressed as required by CAM 4-403.f(2). • Follow guidelines for internal quality control program. (CAM 2-S10)
2	<p>Quality – DCAA Internal PCIE Results - Audits Reflecting Professional Judgment</p> <p>Goal = 100%.</p>	<p>Purpose: To validate the quality of DCAA’s audits.</p> <p>Measurement: Number of audits determined during PCIE reviews to contain professional judgment (formerly referred to as due professional care). These results are provided by DCAA Quality Assurance.</p>	<ul style="list-style-type: none"> • Audit report results must be adequately supported by the working papers, working papers must be documented in accordance with Agency policy, and the assignment must be properly supervised. (CAM 2-302.3 & 2-307) • Sufficient audit evidence must be documented to support the audit conclusions. (CAM 2-302.2 & 3-104.14) • Differences in opinion between auditor and supervisor must be addressed as required by CAM 4-403.f(2). • Ensure PCIE reviews are addressing the appropriate issues and asking the right questions. (DCAAI 7640.20)

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	Audit Performance Measure	Purpose/How Measured	Keys for Success
3	<p>Quality – Quality Audit Report Checklist Question - Report Should Have Been Issued.</p> <p>Goal = 100%.</p>	<p>Purpose: To recognize the importance of our ultimate product – the audit report.</p> <p>Measurement: The measure is based on the last question in the quality audit report checklist as reported in the Quality Audit Report Review System (QARRS). We did not use the overall results because not all the questions are of equal importance. However, this last question – should the report have been issued – should only be marked “no” for serious deficiencies.</p>	<ul style="list-style-type: none"> • Follow CAM and the standard audit report language. (CAM Chapter 10) • Be sure to include the appropriate opinion in the audit report. (CAM 10 – 210.5, 10-304.6, 10-504.5) • Follow the CAM guidance on qualifications and disclaimers of opinion. (CAM 10-210.4 & 10-210.5) • Update QARRS timely.
4	<p>Quality - Audit Reports with Findings.</p> <p>Goal = 45%.</p>	<p>Purpose: To measure the percentage of audit reports issued with findings as an indication of the tangible value of the audit work performed by DCAA.</p> <p>Measurement: Exception dollars reported on 105XX, 10100, 10110, 10180, 17100, 17200, 17800, 19500, 21000, 22000, 23000, 27000, 42000, 42097, and 42098. Inadequate or inadequate-in-part opinion on 11010, 11020, 11050, 11070, 11510, 12030, 12500, 13010, 13020, 14980, 17600, 17740, 24010, 24090, and 26000. CAS Compliance Code = N for 194XX. For 19100 and 19200, disclosure statement inadequate or is not compliant with CAS.</p>	<ul style="list-style-type: none"> • All significant issues documented and supported by the audit should be reported as findings in an audit report. (CAM 2-400, CAM 10-201.5) • Be sure to reference in the report the FAR, CAS, or other citation supporting the finding. (CAM 10-210.5, 10-304.7, 10-304.8, 10-504.5) • If internal control weaknesses exist that led to the reported finding, follow up promptly with the related internal control deficiency flash report. (CAM 10-413)
5	<p>Quality - Quantitative Methods (QM) Usage in Audits.</p> <p>Goal = 15%.</p>	<p>Purpose: To measure the extent that advanced level audit techniques are used.</p> <p>Measurement: Number of audits with QM reported in DMIS. Universe excludes the following assignments: 15300, 15400, 15600,</p>	<ul style="list-style-type: none"> • During audits, assess the appropriateness of using QM techniques and document this assessment in the working papers. (CAM 3-104.17, 4-600, Appendix B and E) • Consult with QM subject matter experts

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		<p>17310, 17330, 17390, 17500, 17600, 17610, 17740, 17750, 17760, 17770, 17800, 17850, 17860, 17870, 19100, 19200, 19500, 24020, 24090, 30000, 30300, 42097, 42099, 48600, 49200, 49300, and 49900. The goal is set at a level to encourage use when appropriate, but not too high so as not to encourage the use of QM techniques when they are not appropriate.</p>	<p>when performing complicated or unusual quantitative method techniques.</p> <ul style="list-style-type: none"> • Be sure DMIS indicates that QM techniques were used.
6	<p>Quality - GAGAS CPE.</p> <p>Goal = 100%.</p>	<p>Purpose: To recognize the importance of professional development and training.</p> <p>Measurement: The performance measures report will calculate percentage of auditors meeting minimum CPE requirements with a goal of 100% completion on time. TRAIN will be the source.</p>	<ul style="list-style-type: none"> • Use Agency Individual Development Plans (IDPs) in TRAIN to document training and professional development needs. (CAM 2-202, 2-S103.2d, PMM Chapter 21). • Spread training over the two-year period to the extent practical. • Remember the GAGAS requirement is the Agency's minimum training requirement. All auditors, at all levels, must have a minimum of 80 hours of CPE in the specified two-year period, 24 hours must be in accounting and auditing, and a minimum of 20 hours must be obtained in each year. (CAM 2-202, 2-S103.2d) • Periodically monitor TRAIN CPE deficiency reports.

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	Audit Performance Measure	Purpose/How Measured	Keys for Success
7	<p>Timeliness – Forward Pricing Reports Issued by the Due Date.</p> <p>Goal = 95%</p>	<p>Purpose: To recognize the importance of providing results to the audit requestor in a timely manner, but to also recognize our primary responsibility of performing GAGAS-compliant audits.</p> <p>Measurement: All dispositioned 21000 and 27000 assignments resulting in an audit report. Goal is measured from the agreed-to revised due date to the disposition date. The revised due date field in DMIS must be consistent with the agreed-to (between the auditor and requestor) revised due date documented in the working papers. If the due date was not revised, the original due date will be used.</p>	<ul style="list-style-type: none"> • If the requested due date is not achievable, follow CAM 9-103.1d and notify the requestor of a realistic due date for a GAGAS-compliant audit. • Keep the requestor informed of any issues that arise that may impact the due date. Due date revisions are permitted as long as the revised due date is agreed to by the requestor. If the requestor does not agree to a change in the due date, the auditor should follow CAM 9-212.2, 9-212.4 and 10.304.4c and issue either a qualified opinion or a disclaimer of opinion due to time constraints. • At no time should the FAO change an audit opinion at the request of the requestor. • Ensure that the contractor’s proposal is adequate for audit. Valuable time could be wasted auditing an inadequate proposal. When a proposal is inadequate, the FAO should follow the guidance at CAM 9-205. • Enforce the contractor’s responsibility to provide timely supporting data. The lack of timely data should result in the costs being questioned or unsupported. (CAM 10-304.8b and c) • Significant questioned or unsupported costs should result in the issuance of a flash estimating system deficiency report. (CAM 9-310, 10-413)

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	Audit Performance Measure	Purpose/How Measured	Keys for Success
8	<p>Timeliness – Incurred Cost Reports Issued Within Specified Times.</p> <p>Goals: Corporate = 90% in 12 months. Major = 90% in 15 months. Non-major = 95% in 24 months.</p>	<p>Purpose: To recognize the importance of providing results to closeout contracts in a timely manner, but to also recognize that conditions outside the auditor’s control can occur.</p> <p>Measurement: All dispositioned 10100 and 10110 assignments, excluding cancelled – grouped into corporate, major, and non-major categories. Goal measured from date adequate proposal received to date dispositioned.</p>	<ul style="list-style-type: none"> • Ensure the proposal is adequate for audit or return the proposal in accordance with CAM 6-707.1b. The decision on whether an incurred cost proposal is adequate for audit is made by DCAA. • Enforce the contractor’s responsibility to provide timely supporting data. The lack of timely data should result in the costs being questioned. • The lack of adequate incurred cost proposals or timely support of the proposal indicates a serious accounting system deficiency that should be reported as such in a flash accounting system deficiency report. (CAM 5-110.c(2), 10-413) • Maximize the issuance of the Form 1 during audit to help expedite timely resolution of audit issues. (CAM 6-900)
9	<p>Efficiency - Cost per Direct Audit Hour.</p> <p>Goal is less than \$113.45.</p>	<p>Purpose: To evaluate DCAA’s cost efficiency on an overall Agency basis.</p> <p>Measurement: Agency-wide operating costs divided by direct audit hours.</p>	<ul style="list-style-type: none"> • Operations will monitor this efficiency performance measure on an overall Agency basis. This is not applicable to a level below the Agency level.
10	<p>Informational - Sustention Rates, Net Savings, and Questioned Cost.</p> <p>Goal – none, informational</p> <p>Customer Service – return to U.S. taxpayer.</p>	<p>Purpose: To provide indicators of the value of DCAA audit services to the U.S. taxpayer and to monitor the effectiveness of the audit recommendations.</p> <p>Measurement: Based on the standard Nets 1a PowerPlay report. The net savings are divided by the Agency operating costs to arrive at the Return</p>	<ul style="list-style-type: none"> • Always exercise auditor professional skepticism when performing an audit. (CAM 2-204e) • Question costs as appropriate regardless of the probability of sustention by the contracting officer. • Follow up on price negotiation memorandums promptly. (CAM 4.104)

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		<p>on Investment that the Government receives as a result of DCAA's auditing efforts. DCAA does not establish annual goals for Savings, Sustention Rates or Questioned Costs. These measures are a by-product of the professional services rendered by DCAA. Our audits are governed by professional auditing standards and Government regulations and are conducted in an impartial manner. Establishing goals in these areas would send an inappropriate message to our staff. However, these statistics, on an Agency-wide basis, are good indicators of the value of DCAA audit services and the effectiveness of the audit recommendations.</p>	<ul style="list-style-type: none"> • Risk analysis should include acknowledgement of the impact of contract types. (CAM 3-104.6 and 3-2S1) • Remind contracting officers of the auditor's availability to attend negotiations or to clarify audit results. (CAM 10-210.5e(2)(f)) • Involve Financial Liaison Advisors. (CAM 15-305.6)
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CAM 3-103 Revision

CAM 3-103d will be modified in the next CAM update to emphasize that audit budgets should be risk-based.

d. Supervisors and auditors should use caution when setting up budgets for assignments. Audit budgets should be based upon risk factors identified in the risk assessment and throughout the course of the audit including appropriate risk factors based upon historical experience with the contractor. However, the audit risk, scope and budget should not be ~~solely~~ based upon the programmed hours nor productivity measures because neither consider current facts and circumstances applicable to the specific audit. Programmed hours are generally based upon historical experience and are **[to be]** used as ~~both a staffing tool and measure of overall team/FAO performance against that historical benchmark~~. Furthermore, performance **[measures]** ~~statistics or productivity metrics~~ apply at the macro level, an average of the aggregate of assignments, and not to the micro level, that is, to individual assignments. We encourage teams to have goals consistent with the **[strategic plan and performance measures]** ~~office's program plans~~, but those goals should not detract from necessary audit steps in planning an individual audit.