

DCAA MEMORANDUM FOR REGIONAL DIRECTORS COVER SHEET

AUDIT GUIDANCE/AUDIT MANAGEMENT GUIDANCE MEMORANDUM NO. 09-PAS-004(R)

Date of MRD: March 13, 2009

Subject of

MRD: Audit Guidance on Reporting Significant/Sensitive Unsatisfactory Conditions Related to Actions of Government Officials

Current Audit Guidance and/or Audit Management Guidance Affected:

CAM

Paragraph

Explanation of Effect on Current Version of CAM

4-803 Remove guidance on conditions related to Government official covered in new 4-804.

4-804 Add new section regarding processing of unsatisfactory conditions related to actions of Government officials, including significant/sensitive conditions requiring an independent assessment by the DoDIG.

AUDIT PROGRAMS

**5 Digit
Activity
Code**

**Subactivity/Document
Name**

**Step
No.**

**Explanation of Effect on Current Audit
Program**

NONE

SHELL AUDIT REPORTS

**5 Digit
Activity
Code**

**Subactivity/Document
Name**

**Sec./
Par.**

**Explanation of Effect on Current Audit
Report**

NONE

MEMORANDUMS FOR REGIONAL DIRECTORS

MRD No.
NONE

Date

Subject/Explanation of Change

**INTERNAL CONTROL QUESTIONNAIRE/INTERNAL CONTROL MATRIX/INTERNAL CONTROL
AUDIT PLANNING SUMMARY**

**ICQ/ICM/
ICAPS**

**Section
& No.**

State Control(s) Affected by the Change

NONE

DCAA PAMPHLETS/REGULATIONS/INSTRUCTIONS

DCAAP/R//No.
NONE

Date

Page/Sec./Par.

Explanation of Effect

DMIS USER GUIDE

Explanation of Effect

NONE



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IN REPLY REFER TO

PAS 730.4.A.4

March 13, 2009
09-PAS-004(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, DCAA

SUBJECT: Audit Guidance on Reporting Significant/Sensitive Unsatisfactory Conditions
Related to Actions of Government Officials

This memorandum revises DCAA's process for reporting unsatisfactory conditions related to actions of Government officials. Certain unsatisfactory conditions related to actions of Government officials will be reported to the Department of Defense Inspector General (DoDIG) in lieu of reporting the conditions to a higher level of management. The unsatisfactory conditions reported to the DoDIG will be those cases where DCAA determines an independent assessment and related actions are necessary due to the significance and/or sensitivity of the matter.

Unsatisfactory conditions include actions by Government officials that appear to reflect mismanagement, a failure to comply with specific regulatory requirements or gross negligence in fulfilling his or her responsibility that result in substantial harm to the Government or taxpayers, or that frustrate public policy. Current guidance in CAM 4-803 requires that the region/FAO handle these conditions by elevating them through the Government official's management chain for resolution. However, certain unsatisfactory conditions may warrant an independent assessment due to the significant or sensitive nature of the matter. An example might include a situation where the contracting officer purposely excludes DCAA from performing or completing an audit to avoid a negative report (e.g., audit report with an adverse opinion). Another example may be where a contracting officer ignores a DCAA audit report and takes an action that is grossly inconsistent with procurement law and regulation, (e.g., awards a contractor unreasonable or excessive costs and/or profit).

When an unsatisfactory condition of this nature comes to the auditor's attention, the FAO manager should discuss the issue with the regional office to ascertain the appropriate reporting. Where the region/FAO determine it is not advisable to elevate the condition to a higher level of authority within the Government official's chain of command (i.e., an independent review is more appropriate due to the significant and/or sensitive nature), the FAO will provide a report covering the details of the conditions to the region. The region will review the report for accuracy and completeness and then forward the report to Headquarters, Attention: Policy and Plans. If Headquarters concurs with the region/FAO assessment, the submission will be forwarded to the DoDIG for appropriate action.

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PAS 730.4.A.4

SUBJECT: Audit Guidance on Reporting Significant/Sensitive Unsatisfactory Conditions
Related to Actions of Government Officials

This special reporting applies only to the most significant and sensitive issues. Less significant/sensitive matters should continue to be handled at the local level, elevating the issue to the next higher level of management authority within the Government official's chain of command for appropriate resolution.

Indications of suspected irregular conduct (e.g., possible violations of criminal and penal statutory provisions, such as those implemented by the Joint Ethics Regulation) should continue to be reported on the DCAAF 2000, *Suspected Irregularity Referral Form*, and not pursued as an unsatisfactory condition.

We have developed a new CAM Section 4-804 (see enclosure) to reflect this new guidance.

FAO personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Mr. David McCormick, Program Manager, Auditing Standards Division, at (703) 767-3274 or by e-mail at DCAA-PAS@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosure: a/s



DISTRIBUTION: C

4-804 Unsatisfactory Conditions (Mismanagement, Negligence, etc.) Related to Actions of Government Officials

4-804.1 Introduction

Unsatisfactory conditions include actions by Government officials that appear to reflect mismanagement, a failure to comply with specific regulatory requirements or gross negligence in fulfilling his or her responsibility that result in substantial harm to the Government or taxpayers, or that frustrate public policy. Most unsatisfactory conditions should be handled by the region/FAO, elevating the issues through the Government official's management chain. However, for some unsatisfactory conditions an independent assessment is necessary due to the sensitivity or significance of the matter. DCAA will report such conditions to the Department of Defense Inspector General (DoDIG) for appropriate action.

4-804.2 Audit Responsibilities

a. Auditors should discuss unsatisfactory conditions they encountered with the FAO management and the FAO manager should assess the issues and take the appropriate actions. The FAO manager may be able to resolve some unsatisfactory conditions at the local level. For example, the FAO manager may resolve an issue related to the contracting officer by elevating it to the head of the local procurement office. For unsatisfactory conditions addressed at the FAO level, the FAO manager should take the necessary actions and prepare a memorandum for record (MFR) documenting the relevant facts, including judgments and conclusions supporting the actions taken. A copy should be furnished to the originating auditor for filing in the appropriate FAO file with an information copy furnished to the RAM.

b. If the FAO's efforts to resolve the issue are unsuccessful or it is determined that the unsatisfactory conditions should not be handled at the FAO level due to the sensitivity or significance of the matter, the FAO manager should discuss the unsatisfactory conditions with the regional office. Based on these discussions, the region/FAO will determine whether to (1) attempt to resolve the issues at the regional level by elevating the issues through the Government official's management chain, or (2) forward the unsatisfactory conditions to Headquarters for forwarding to the DoDIG for resolution. If the region/FAO determine that the region should attempt to resolve the issue and those regional efforts fail, the issue will be forwarded to Headquarters.

c. Any unsatisfactory conditions forwarded to Headquarters, either for resolution at the Headquarters level or forwarding directly to the DoDIG, will be accompanied by a report prepared by the FAO describing the condition. Before the region submits the report to Headquarters, ATTN: Policy and Plans, the regional director will ensure that it contains all pertinent facts and a comprehensive explanation of all actions taken to resolve the matter, if applicable. Headquarters will either attempt to resolve the issue at the Government official headquarters level or, if an independent assessment is needed, forward the submission to the DoDIG for appropriate action.

d. This special reporting to the DoDIG applies only to the most significant and sensitive issues. Less significant/sensitive matters should be handled at the local level, elevating the issue to the next higher level of management authority within the Government official's chain of command for appropriate resolution. Examples of the types of unsatisfactory conditions that may warrant an independent assessment by the DoDIG include, but are not limited to, the following:

(1) A contracting officer purposely excludes DCAA from performing or completing an audit to avoid a negative report (e.g., audit report with an adverse opinion).

(2) A contracting officer takes an action grossly inconsistent with procurement law and regulation; e.g., awards a contractor unreasonable or excessive costs and/or profit.

e. Contracting officers have wide authority to make decisions regarding contract matters. DCAA auditors act as advisors to contracting officers. Simple disagreement between the audit position and the contracting officer's decision is not reportable as an unsatisfactory condition.

f. Suspected irregular conduct, e.g., violations of criminal and penal statutory provisions, such as those implemented by the Joint Ethics Regulation, should be reported on the DCAAF 2000 and not as unsatisfactory conditions.