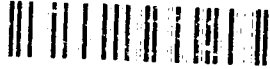


GAO

AD-A242 145



Report to the Chairman, Subcommittee
on Investigations, Committee on Armed
Services, House of Representatives

DEFENSE CONTRACT AUDITS

Defense Contract
Audit Agency's Staff
Qualifications,
Experience, Turnover,
and Training



91-15354





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-241812

July 19, 1991

The Honorable Nicholas Mavroules
Chairman, Subcommittee on Investigations
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

This report is the second in response to your letter requesting information on the Department of Defense's (DOD) organizational structure for performing contract audits. Our first report¹ addressed the organizational relationships and responsibilities for contract auditing within DOD. This report provides information on the recruitment, qualifications, experience, turnover, and training of the Defense Contract Audit Agency's (DCAA) audit staff.

Results in Brief

During fiscal years 1986 through 1990, DCAA recruited and hired over 4,600 auditors to fill new staff positions authorized by the Congress and to replace staff who had left the agency. All met or exceeded the Office of Personnel Management's (OPM) minimum qualification standards for federal government auditors. DCAA accomplished this by expanding its recruitment program and using direct hire authority delegated to it by OPM. DCAA also maintained a cadre of experienced auditors, as measured by their grade levels and years of DCAA experience. Between fiscal years 1986 and 1990, DCAA's staff turnover rate was generally lower than that of other DOD audit organizations but somewhat higher than OPM's reported turnover rate for all federal government auditors. During this period, however, DCAA staff turnover rates may have appeared higher to the contractors being audited because DCAA's auditor rotation policy results in the frequent movement of audit staff among contractor locations.

DCAA expanded its training program to meet the requirements of a larger audit staff by providing more contract auditing classes and training more auditors. Moreover, DCAA's auditors met, and most exceeded, the minimum hours of training required by DCAA's training policy and applicable federal standards.

¹ Defense Contract Audits: Current Organizational Relationships and Responsibilities (GAO/AFMD-91-14, April 3, 1991).

Accession For
NAT. ARCH. ☒
GPO Pub. ☒
Unpublished ☒
Distribution ☒
By
Distribution/
Availability Codes
Dist Avail and/or
A-1 Special



Background

DCAA audits DOD contracts and provides accounting and financial advisory services to all DOD procurement and contract administration activities. It is a highly decentralized organization with a headquarters unit located in Alexandria, Virginia, and six regional offices located in Marietta, Georgia; Waltham, Massachusetts; La Mirada and San Francisco, California; Philadelphia, Pennsylvania; and Irving, Texas. These regional offices are responsible for DCAA's audit operations through 455 field locations at or near defense contractors' plants. DCAA also operates the Defense Contract Audit Institute, a training facility in Memphis, Tennessee.

Increasing demands on DCAA for contract audits during the 1980s resulted in a growing backlog of uncompleted audits. To address this backlog, the Congress authorized DCAA to increase its staff by a total of 2,375 in fiscal years 1986 through 1989. In addition, DCAA had a staff turnover rate of between 10.3 percent and 13.8 percent annually during fiscal years 1986 through 1990. To meet its staffing needs, DCAA expanded its recruitment program to fill both the new positions authorized by the Congress and to replace over 2,300 staff who left the agency during this 5-year period. Total DCAA staff increased by over 40 percent between fiscal years 1986 and 1989. This dramatic increase of newly hired staff led to concerns regarding DCAA's ability to hire qualified staff, maintain experienced staff, and provide training.

Objectives, Scope, and Methodology

Our overall objective was to review DCAA's efforts to recruit and maintain qualified auditors during fiscal years 1986 through 1990. Specifically, as agreed with your office, we determined whether

- DCAA recruited and hired audit staff who were qualified to perform contract audits for the federal government,
- DCAA maintained an experienced cadre of auditors to perform contract audits,
- DCAA's staff turnover rate was comparable to that of other federal audit organizations, and
- DCAA's audit staff met minimum training requirements for performing contract audits.

To determine whether the audit staff hired by DCAA were qualified to perform contract audits, we obtained a listing of DCAA's 5,690 auditors at all grade levels as of September 7, 1990, which included the name, grade level, and date of employment for each auditor. We used information as of September 7, 1990, because it was the most current available at the

time of our review. From this listing, we drew a random sample of 195 auditors from the 3,188 auditors hired after September 30, 1985, that were still working with DCAA as of September 7, 1990. We obtained the personal qualifications statements and college transcripts for each sampled auditor from DCAA's personnel files. From these documents, we determined the following for each auditor: college(s) attended, degree(s) earned, semester hours of accounting courses completed, prior experience, and the grade level at which the auditor was hired. We compared this information with OPM's qualifications standards for hiring federal government auditors to determine if each sampled auditor met those standards.

To identify the experience level of DCAA's audit staff, we relied on quantifiable measures including their grade levels and years of DCAA experience. We did not attempt to assess their individual skills or expertise. We established three experience-level categories from our September 7, 1990, listing of all DCAA auditors, based on their years of experience in DCAA. Because DCAA hired auditors mainly at the entry level, we did not consider the amount of prior experience held by some of the auditors. The three categories were: (1) auditors hired in fiscal year 1989 and in fiscal year 1990 through September 7, 1990, (2) auditors hired in fiscal years 1986 through 1988, and (3) auditors hired before fiscal year 1986. Next, we determined the number of auditors in each of the experience-level categories and at each grade level. Through a comparison of the number of auditors both in each experience-level category and at each grade level, we determined if DCAA maintained a cadre of experienced auditors.

To determine how DCAA's staff turnover rate compared with that of other federal audit organizations, we obtained the turnover rates of all DOD audit organizations for fiscal years 1986 through 1990 from the Defense Manpower Data Center. We then compared DCAA's staff turnover rates to those of the other DOD audit organizations for the years sampled. We also obtained OPM's reported staff turnover rates for all federal auditors for fiscal years 1986 through 1990 and compared them to DCAA's rates during the same period.

We also determined the extent of interoffice transfers within DCAA due to DCAA's auditor rotation policy for fiscal years 1989 and 1990. We reviewed the documentation for personnel actions of all auditors who left DCAA offices during the 2 fiscal years and determined the number of auditors who transferred to a different DCAA audit office and the number who left the agency.

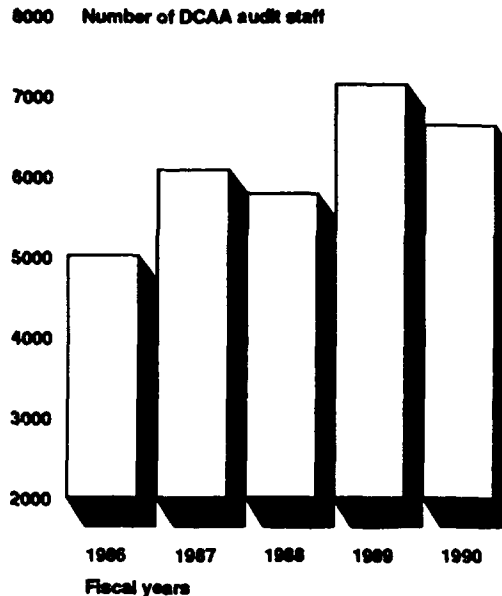
To determine if DCAA auditors received adequate training for performing contract audits, we randomly selected 300 auditors from our September 7, 1990, listing of DCAA audit staff and obtained their training records from their respective regional offices. To verify the accuracy of the regional offices' records, we obtained the individual training documents for every fifth auditor in our sample. From these records, we obtained the name of each course to determine its relevance to contract auditing and the number of hours of instruction received by each auditor during fiscal years 1989 and 1990. We also compared each individual's hours of instruction received with the minimum required by DCAA's training policy for the same years. In addition, we compared DCAA's training policy with (1) the training guidelines established by the President's Council on Integrity and Efficiency (PCIE) for federal audit organizations and (2) the Comptroller General's Government Auditing Standards (1988 revision).

We performed our review between August 1990 and March 1991 in accordance with generally accepted government auditing standards. We discussed our findings with responsible DCAA officials and incorporated their comments where appropriate.

Recruitment Program Expanded to Hire Qualified Auditors

During fiscal years 1986 through 1990, DCAA expanded its recruitment program and used direct hire authority delegated by OPM to recruit and hire qualified auditors to fill a total of 2,375 new staff positions authorized by the Congress from fiscal years 1986 through 1989 and to replace over 2,300 staff who left the agency during fiscal years 1986 through 1990. The over 4,600 newly hired auditors met or exceeded OPM's minimum qualification standards for federal government auditors. DCAA's expanded recruitment efforts resulted in a net increase in maximum employment levels of approximately 2,100 audit staff between fiscal years 1986 and 1989. However, by the end of fiscal year 1990, total staff dropped to 6,635 due to DOD-wide budget cuts. (See figure 1.)

Figure 1: DCAA Maximum Employment Levels



DCAA expanded its auditor recruitment efforts by developing a nationwide recruiting program which included the following initiatives:

- updating recruitment training guide, literature, and video;
- conducting training conferences for new recruiters;
- using paid advertising in various newsletters and professional journals to announce available positions;
- making available a toll-free telephone number so prospective applicants could obtain information;
- conducting a governmentwide study of pay rates to identify high cost areas where special rates would be appropriate; and
- increasing the number of recruiters.

DCAA focused its auditor recruitment program primarily on college campuses where DCAA's regional staff and personnel officers increased their contacts with accounting and job placement officials. Where possible, DCAA auditors were selected to return to their alma maters along with recruiters to speak to accounting classes, attend campus career fairs and accounting club meetings, and conduct interviews.

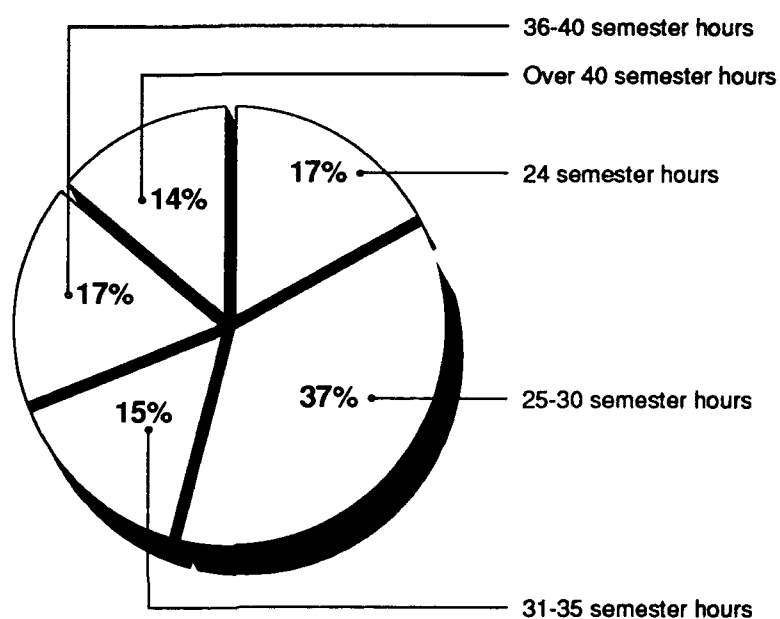
According to DCAA officials, they obtained direct hire authority from OPM, which enabled them to successfully hire new staff to meet the

agency's targeted staffing levels. Specifically, the authority gave DCAA's recruiters the flexibility to evaluate an applicant's qualifications without using OPM's rating and ranking system. Also, it allowed DCAA recruiters to make on-the-spot, tentative job offers to qualified applicants. On occasion, DCAA recruiters could review job applications, interview the candidates, make selections, and complete the required DCAA employment paperwork during one visit.

DCAA hired new staff mainly at the GS-7 level who met or exceeded OPM's minimum qualification standards to perform federal government audits. The standards require that applicants for GS-5 auditor positions have a college degree with either an accounting major or at least 24 semester hours of accounting courses, or an appropriate combination of college training and audit-related work experience. Applicants for GS-7 auditor positions must also have either a year of professional experience or a year of graduate-level study. Alternatively, under OPM's Superior Academic Achievement provision, GS-7 applicants can substitute a grade point average of 3.0 or better for the additional experience or graduate-level study.

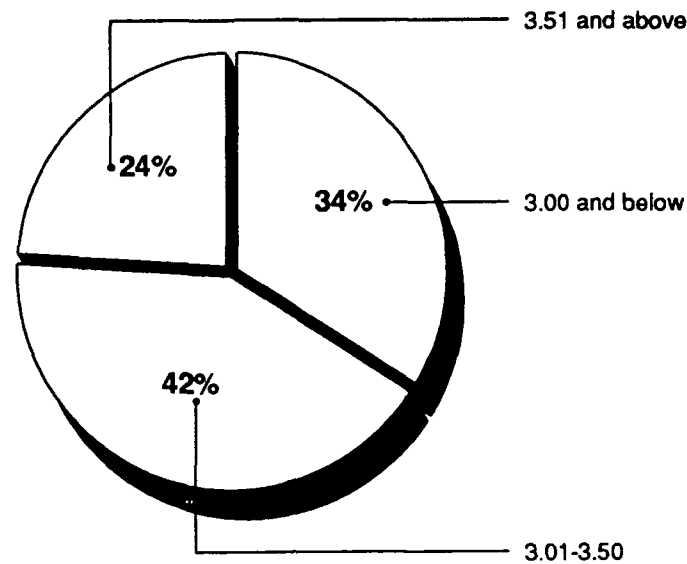
Our review of the personnel records of 195 DCAA auditors showed that all had met, and most exceeded, OPM's minimum qualification standards. All auditors had college degrees with at least 24 semester hours of accounting courses. Moreover, 83 percent of the auditors had more than the minimum required semester hours of accounting. (See figure 2.)

Figure 2: Accounting Semester Hours Completed by DCAA Auditors Hired Between October 1, 1985, and September 7, 1990



Our review of the auditors' college grade point averages showed that 66 percent exceeded the 3.0 minimum grade point average. (See figure 3.) Those auditors hired at the GS-7 level who did not meet this grade point average satisfied OPM requirements by having the required year of professional experience or a year of graduate-level study. Overall, the auditors had an average grade point average of 3.19.

Figure 3: Grade Point Averages of DCAA Auditors Hired Between October 1, 1985, and September 7, 1990



DCAA Maintained Experienced Staff and Had Comparable Turnover Rates

Along with the new staff hired through its expanded recruitment efforts, DCAA also maintained a cadre of experienced auditors for performing contract audits. Between fiscal years 1986 and 1990, DCAA's overall staff turnover rate was comparable to other audit organizations. During the same period, DCAA staff turnover rates may have appeared higher because DCAA's auditor rotation policy resulted in the frequent movement of audit staff among contractor locations.

Contract Audit Experience

DCAA maintained experienced staff to perform contract audits as measured by their grade levels and years of DCAA experience. Seventy-two percent, or 4,076 auditors, had 2 or more years of contract audit experience in DCAA. Moreover, 44 percent, or 2,492 auditors, had over 5 years of DCAA experience. (See figure 4.)² As of September 7, 1990, about 60 percent of DCAA's audit staff was at the GS-12 journeyman grade level or above. (See figure 5.)

²For the purposes of this analysis, we considered fiscal year 1990 to be complete, even though our data was drawn on September 7, 1990.

Figure 4: Auditor Experience in DCAA

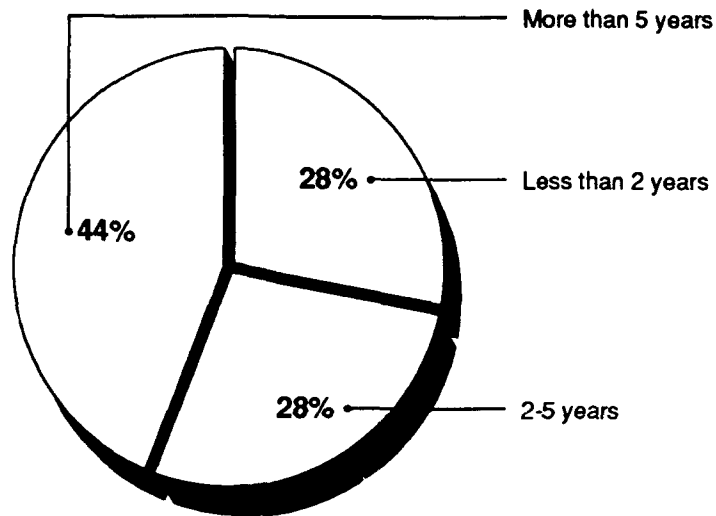
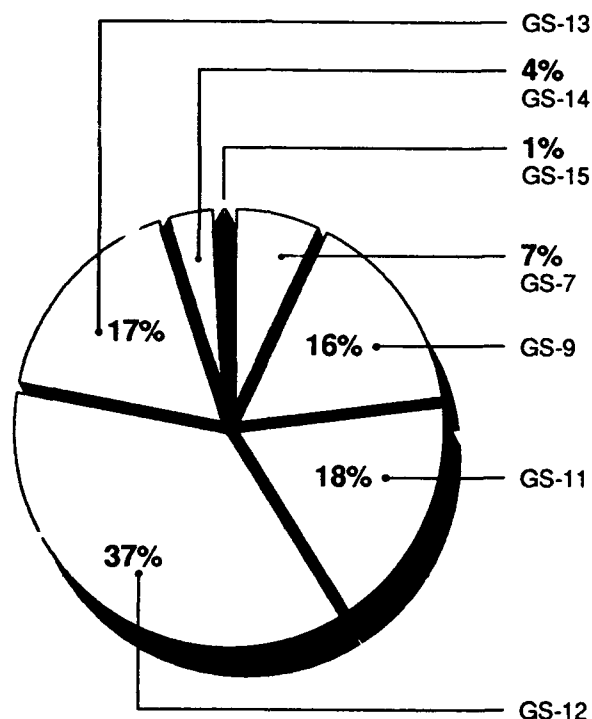


Figure 5: DCAA Auditors by Grade Level

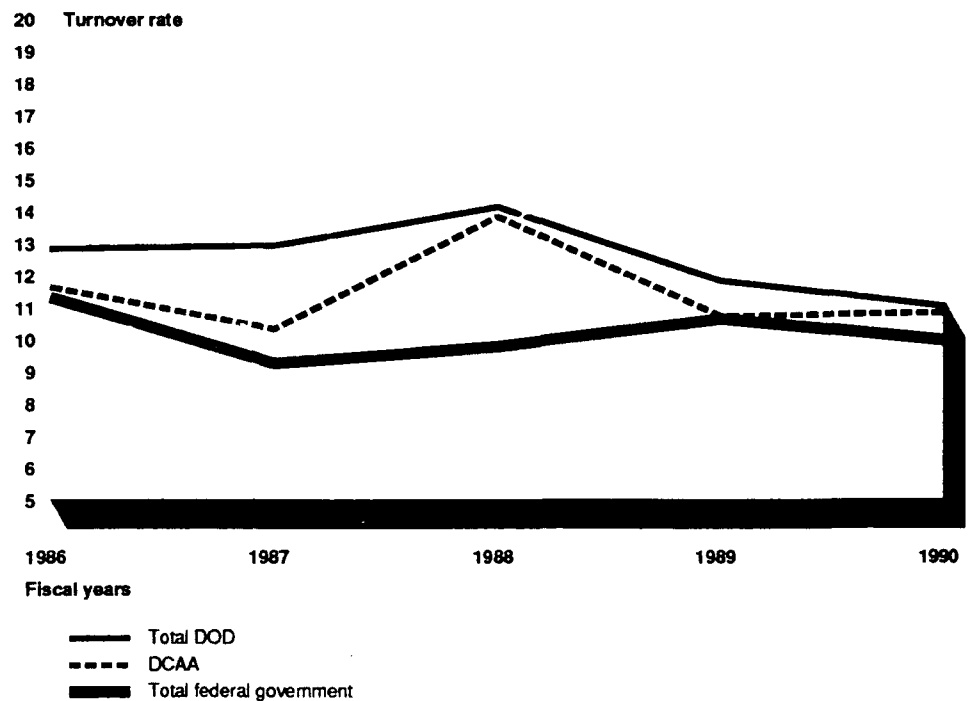


Note: GS-5 and Senior Executive Service together account for less than 1 percent

Staff Turnover

During fiscal years 1986 through 1990, DCAA's turnover rates were generally lower than those for all DOD audit organizations during the same period, but somewhat higher than the rates for federal government auditors as a whole. DCAA's annual turnover ranged between 10.3 percent and 13.8 percent annually during fiscal years 1986 through 1990, as compared to the turnover rate for all DOD auditors, which ranged between 11.0 percent and 14.1 percent annually. OPM's reported turnover rate for all federal government auditors ranged between 9.23 percent and 11.28 percent annually during the same years. (See figure 6.)

Figure 6: Auditor Turnover Rates



DCAA actively exercises an auditor rotation policy to place more experienced auditors where needed and to broaden the knowledge and experience of its auditors. During fiscal years 1989 and 1990, 3,059 auditors left DCAA offices. Of these, 1,107 auditors actually separated, which affected DCAA's turnover rates, while the remaining 1,952 auditors were reassigned under DCAA's rotation policy to other DCAA audit offices. Therefore, the auditor reassignments from DCAA's auditor rotation policy may have given the appearance of high turnover rates to the contractors being audited.

Training Exceeded Requirements

DCAA expanded its training program to meet the requirements of a larger audit staff by providing more contract auditing classes and by training more auditors. DCAA's auditors met, and most exceeded, the minimum hours of training required by DCAA's training policy, which is consistent with the requirements for continuing education and training found in Government Auditing Standards. In fiscal year 1990, DCAA's auditors received approximately 81 percent of their formal training through classroom courses and 19 percent through self-study.

DCAA auditors receive classroom training at the Defense Contract Audit Institute (DCAI), which is located at Memphis State University in Memphis, Tennessee. As DCAA grew, DCAI grew in terms of its annual budget for instructors and training classes. DCAI records show that it delivered 139 classes and trained 2,698 students during fiscal year 1986 as compared to the 599 classes delivered and 6,040 students trained during fiscal year 1990.

DCAA auditors receive additional training at their field audit offices through a library of self-study courses designed to address particular types of audit assignments. Currently, DCAA has 55 recommended self-study courses with several more being developed. We reviewed 35 of these courses and found that they all had a text on contract audit-related material, end-of-chapter questions, and final examinations to be graded by the student's supervisor.

In fiscal years 1989 and 1990, DCAA's auditors averaged over 80 hours of training each year through DCAI classes and self-study, thus exceeding the 80 hours of biennial training required by DCAA's training policy. Moreover, those auditors with 2 or fewer years of experience averaged over 100 hours of training annually. In addition, all DCAA auditors completed a minimum of 20 hours of training in each of these years as required by the training policy.

Further, DCAA's training policies and procedures incorporate all the elements considered critical for a successful training program by the PCIE's Training Program Guide for Government Audit and Investigative Activities (September 1983). For example, the PCIE recommends a program of study for various developmental needs and experience levels. We found that DCAA's training policy recommends auditing courses for each grade level.

Conclusions

During fiscal years 1986 through 1990, DCAA was able to maintain the quality of its audit staff, as measured by years of experience and grade levels, while increasing its staff size. In addition, DCAA experienced staff turnover comparable to other audit organizations and maintained a training program capable of meeting the demands of its larger staff.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies of the report to the Director of the

Office of Management and Budget, the Secretary of Defense, the Comptroller of the Department of Defense, the Director of the Defense Contract Audit Agency, and interested congressional committees. We will also make copies available upon request.

Please contact me at (202) 275-9489 if you or your staff have any questions concerning the report. Major contributors to the report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, appearing to read "David L. Clark". The signature is written in a cursive, flowing style with a large initial "D" and a stylized "C".

David L. Clark
Director, Legislative Reviews
and Audit Oversight

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