

DCAA's Annual Report, Again

Written by Nick Sanders
Monday, 09 May 2016 00:00

For the fifth time, the Defense Contract Audit Agency has submitted its Annual Report to Congress. This is a report mandated by statute and certain metrics must be reported because Congress told DCAA it had to do so. Accordingly, there is some repetition from year to year.

We have reported on each Annual Report to Congress. Links to those blog articles follow:

-

[First](#) Annual Report to Congress

-

[Second](#) Annual Report to Congress

-

[Third](#) Annual Report to Congress

-

[Fourth](#) Annual Report to Congress

For the Government Fiscal Year 2015, DCAA reported the following metrics:

-

DCAA examined \$257.5 Billion in contract costs, up from last year's figure of \$182.6 Billion

DCAA's Annual Report, Again

Written by Nick Sanders
Monday, 09 May 2016 00:00

-

DCAA issued 4,546 audit reports, down from the last year's figure of 5,688 audit reports

-

DCAA issued 1,925 incurred cost audit reports, roughly the same amount as last year (1,919)

-

DCAA closed 9,400 incurred cost years, down from last year's figure of 11,101 incurred cost years

-

DCAA reported \$3.1 Billion in "net savings" to the taxpayers, down from last year's figure of \$4.5 Billion

-

DCAA reported a "return on investment" of \$4.80 to \$1.00 spent, down from last year's figure of 6.9 to 1

-

DCAA reported 11,758 incurred cost submissions as pending at year end, significantly down from last year's figure of 18,185

-

DCAA reported that it took the agency an average of 883 days to complete a single incurred cost audit, a significant improvement over last year's duration of 1,006 days

-

DCAA reported a questioned cost sustention rate of 50.6%, up from last year's sustention rate of 46.4%

Auditor staffing as of 30 September 2015: 4,304 – down 252 auditors from last year's level (5.5% decrease). The Report noted that that decrease stemmed from "budget constraints" and also stated that the funding eliminated by the 2016 NDAA will impact the agency's ability to perform needed audits. According to Director Bales, "Without additional funding, we cannot bring on new hires or hire behind attrition. This reduction in resources, combined with the operational lags for training and transition, will likely have a negative impact on our progress moving forward." The problem with that logic is that the lost funding was 100% related to non-DOD audits; there should still be plenty of funding available to perform DOD audits and to hire auditors to perform DOD audits.

Despite our opinion on the topic, DCAA begged Congress for more funding to hire more auditors. For example, DCAA stated that it must perform business system reviews on 675 major contractors. DCAA stated, "To conduct business system audits at all of these companies on a cyclical basis, DCAA needs to do over 2,000 Business System audits over a three-year period. DCAA's approach is to do one business system per year at each contractor-a total of 675 business system audits per year-covering all three business system audits in a three-year period. Over the past several years, due to resource constraints, DCAA has averaged only 22 business system audits per year."

According to DCAA, the agency is supposed to conduct a minimum of 675 business system audits each year, but it managed to eke out a paltry 22 such audits in GFY 2015. *That sucks*, doesn't it? For the record, let us point out that nowhere in statute or regulation does it say that a business system review expires in three years. DCAA just made that "sell-by date" up out of nothing and it's desperately hoping that nobody is noticing. Well, we are. We call shenanigans.

DCAA also stated that it could perform more than the sad number of 26 "post-award" defective pricing audits that it performed in GFY 2015, if only it had more funding and more auditors.

Yeah, no.

Let us repeat (once again) an oft-repeated refrain, one that's been featured far more than once on this website:

DCAA has plenty of auditors. What DCAA lacks is effective management.

DCAA's management decided on its unique interpretation of GAGAS that requires far more effort and documentation than most observers would consider to be reasonable.

DCAA's management decided to defer performing incurred cost audits so it could focus on performing audits in Southwest Asia, which garnered headlines and lots of questioned costs, and provided nice fodder for Congressional testimony—but which history has proven to be of dubious value to the taxpayer. Then, when the backlog became itself the focus of Congressional hearings, DCAA's management decided to focus almost exclusively on the ICS audits, to the detriment of CAS compliance, Disclosure Statement adequacy, and TINA compliance—not to mention business system reviews.

DCAA's management watched productivity metrics fall and read scathing criticism after scathing criticism; yet it did almost nothing to address the concerns of alarmed senior auditors and outside critics.

DCAA's management led the audit agency into the sinkhole in which it now finds itself. DCAA's management—and no other group of people—is to blame for its own problems.

And now DCAA's management wants the taxpayers to ladle over more funding so it can hire more auditors to keep performing audits the same way the agency has become accustomed to performing them—with ridiculously long risk assessments, ridiculous piles of electronic working papers, hours spent observing contractors download system reports to prevent manipulation (as if the False Statements Act didn't exist), and 80% of the work performed via checklist.

DCAA dug its own hole and we here at Apogee Consulting, Inc. do not believe that the taxpayers should throw them a rope to climb out.

