

## DCAA Continues Productivity Trends

Written by Nick Sanders  
Monday, 18 December 2017 00:00

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How do we choose what to write about? How can we find topics that seem interesting (at least to us) in this small world of government contracting, cost accounting, and compliance?

Well, some topics choose us.

For example, every six months the Department of Defense Office of Inspector General (DoDOIG) publishes its [Semi-Annual Report to Congress](#) (SAR). And every six months we review Appendix E (Contract Audit Reports Issued) and Appendix F (Status of Action on Post-Award Contracts) to see what insight can be gleaned regarding DCAA performance. If we see something interesting (at least to us), then we write about it. Thus, every six months we get an article essentially “pushed” to us from the DoDOIG.

And every two SAR reports gives us a full government fiscal year’s (GFY) worth of data.

What does the latest DoDOIG SAR, covering the six-month period April 1, 2017 through September 30, 2017 (and completing GFY 2017) have to tell us?

It tells us that DCAA is continuing to experience declines in productivity.

Clearly, this trend is not news to our readership. Clearly, this trend is not news to anybody who supports DCAA audits in any significant volume. Further, this trend is not news to Congress, which has, for the past two or three years, been “helping” DCAA reduce its embarrassing backlog of unperformed audits of contractor annual proposals to establish final billing rates (also known as “incurred cost” audits).

The news is that there is no news. DCAA has not turned around its productivity. Auditors continue to do less, year after year.

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Let us be more specific.

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In GFY 2017, DCAA issued 817 audit reports less than it did in GFY 2016, a drop of 19 percent year-over-year (YOY).

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In GFY 2016, DCAA issued 277 audit reports less than it did in GFY 2015.

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In GFY 2015, DCAA issued 1,142 audit reports less than it did in GFY 2014.

Of course, the issuance of audit reports doesn't tell the whole story, because DCAA doesn't issue audit reports for every assignment it completes. In fact, in GFY 2017, 69 percent of all DCAA audit assignments were completed without issuance of a formal report. (It was 68% in GFY 2016.) Roughly two-thirds of DCAA's audit assignment workload is being completed without issuance of a formal audit report—which means that only one-third (at most) of all DCAA activity is subject to GAGAS (or GAS as they are calling it this year). Remember that statistic, because it will come up later.

If the issuance of audit reports doesn't tell a fair story, would you accept total number of assignments completed? Because that trend isn't so hot either.

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In GFY 2017, DCAA completed 11,068 assignments. We don't have a report showing number of auditors yet, but if we assume flat staffing then 4,023 auditors completed 11,068 assignments—for a ratio of 2.75 reports per auditor per year. (We're not claiming that's an accurate number, but we believe it is definitely in the ballpark. Call it a ROM.)

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In GFY 2016, DCAA completed 13,520 assignments. That means that the number of completed assignments in GFY 2017 was 2,452 less than was completed in GFY 2016. There was a YOY drop of 18 percent.

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In GFY 2015, DCAA completed 15,715 assignments. In GFY 2014, DCAA completed 15,837 assignments. You get the picture. (Though in fairness, GFY 2014 was an improvement from GFYs 2011 and 2012. But in GFY 2010, DCAA completed 17,159 assignments. You really don't want to compare GFY 2017 to GFY 2010, because that drop looks really really bad. Hint: in GFY 2010 DCAA completed 3.8 assignments per staff workyear.)

What about dollars examined? Can that trend tell us anything about DCAA?

Let's look:

In GFY 2017, DCAA examined \$281.05 billion dollars of contractor costs through various audits. That's quite a lot, no doubt about it. But in GFY 2016, DCAA examined \$286.8 billion dollars. If you put the all the stats reported so far together, you see that DCAA audited roughly the same amount of dollars YOY, and completed roughly the same amount of assignments but issued 19 percent fewer audit reports.

In fairness, DCAA examined a bit less in GFYs 2014 and 2015, so we need to give that to the audit agency. Further, it should be fairly clear that DCAA cannot control the dollar value of what it audits. Fluctuations are to be expected.

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Maybe looking at dollars examined doesn't tell a complete story.

Would you accept a trend about dollars questioned? What about dollars questioned as a percentage of total dollars examined? What might that tell us?

(Before we go there, we have to tell you that we are including DCAA's findings in its pre-award proposal audits, which it calls recommendations for "funds put to better use." They are not officially questioned costs but we are including those values in our analyses—because if we didn't do so, then we would have to exclude all the numbers related to "forward pricing proposal" audits from all the statistics we've reported so far.)

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In GFY 2017, DCAA questioned \$7.15 million, or 2.55 percent of total dollars examined. In GFY 2016, DCAA questioned \$9.98 million, or 3.5% of total dollars examined. DCAA questioned roughly one percent fewer dollars, YOY, for every dollar auditors examined.

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In GFY 2015, DCAA questioned 4.27 percent of total dollars examined.

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In GFY 2014, DCAA questioned 5.85 percent of total dollars examined.

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In GFY 2013, DCAA questioned 9.82 percent of total dollars examined.

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Do we need to go on?

If you look only at the category called “incurred costs, operations audits, special audits,” the trend is even more stark. In GFY 2017, DCAA questioned almost exactly one percent of dollars examined in those audits. In GFY 2016, DCAA questioned 1.82 percent of total dollars examined. In GFY 2015, DCAA questioned 2.45 percent of total dollars examined. In GFY 2014, DCAA questioned 2.81 percent of total dollars examined in those audits. In GFY 2013, DCAA questioned 6.35 percent of total dollars examined.

Do we need to go on?

What about sustention rates, we hear you asking.

Well, there's a bright spot for DCAA. In the second half of GFY 2017, contracting officers sustained 30.7% of dollars questioned by DCAA, an increase from the first half value of 25.5%. By our rough math (which includes forward priced proposal findings), the GFY 2017 value was about 29 percent. Which is okay, perhaps, until one realizes that more than 70 percent of all DCAA questioned costs are *not* being sustained.

Or until one realizes that, historically, sustention rates have been much higher.

For example, the GFY 2016 sustention rate was about 34.4%. The GFY 2015 sustention rate was about 48 percent. The GFY 2013 sustention rate was about 71.5%.

In other words, even though DCAA questioned costs rates are falling, CO sustention of those questioned costs is falling as well. If you compare GFY 2017 to GFY 2013, that represents a complete reversal of sustention rates. *Instead of sustaining more than 70 percent of questioned costs, COs are now non-sustaining more than 70 percent of questioned costs.*

Where is that coming from?

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Well, perhaps one driver is the lack of DCAA audit quality.

Even though roughly two-thirds of all DCAA audit activity is completed without issuance of a formal audit report—which would subject the audit to a review for compliance with GAGAS/GAS—the roughly one-third of audit reports that are issued are full of deficiencies.

What do we mean? We wrote about it [here](#).

In that article, we explored the latest external peer review performed on DCAA's quality control system. That review—which was (perhaps not coincidentally) performed by the DoDOIG—found that nearly 40 percent of all DCAA audit reports had one or more quality deficiencies. In other words, although DCAA is subjecting only one-third of its activity to scrutiny, nearly 40 percent of that one-third failed the external quality audit. (Yet, as we wrote, DCAA passed its external peer review, baffling people who deal with audits for a living.)

Thus, if 40 percent of DCAA's best audit reports are no good, then perhaps that explains why contracting officer sustention rates keep falling, year-over-year.

In summary, the latest DoDOIG SAR confirms the trends that we've been reporting on for years. Auditor productivity down. Audit quality down. Sustention rates down.

Not a pretty picture.

But that picture didn't stop the U.S. Department of State from recently [amending](#) its Acquisition Regulation (DOSAR) to make DCAA the official auditor of choice for audits of contractor annual proposals to establish final billing rates. As the notice of rule-making stated, "The Department has an interagency agreement with the Defense Contract Audit Agency (DCAA) to perform incurred cost audits on cost-reimbursement contracts." DOSAR Part 604 was revised "to specify the office through which audits are coordinated, from the Office of the Inspector General to the Audit Team in the Office of Acquisitions Management's Quality

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Assurance Branch.”

Thus, regardless of our view of DCAA’s trend lines, the Department of State is happy to continue to use DCAA as its “go-to” audit agency.