

DCAA has published some significant audit guidance recently, much of which we have discussed on this website. We usually get access to new audit guidance (issued in the form of Memoranda for Regional Directors) a couple of weeks in advance of publication on the DCAA's website. Recently, however, DCAA has experienced delays in putting its new audit guidance on the Internet; publication of some guidance has been delayed as much as six weeks. Typically, we wait to discuss new guidance until it's available to the public, but now we've lost patience—and so we have some things to discuss with you.

First, you may remember that we've taken issue with the latest DCAA audit guidance that provides direction to auditors on how to evaluate contractors' estimates of future indirect cost rates. For example, we had very few nice things to say about [MRD 10-PSP-021\(R\)](#) and many negative ones. Prior to that, we had even fewer things--and many more negative things—to say about

[MRD 10-PSP-018\(R\)](#)

. Our overarching thought, based on the recent guidance, is that, in essence, DCAA as an organization has
gone insane

You can't have worked in the arena of government contract cost accounting for the past two years and not noticed the intense barrage of criticism leveled at the audit agency—much of it politically driven, unwarranted, and based on flawed review methodology. One of the more frequent criticisms has been that DCAA has not met the independence standards imposed by generally accepted government auditing standards (GAGAS). That accusation hasn't been true—or at least, it's been rarely true—but it has driven the audit agency into a virtual *obsession*

with maintaining independence. That obsession has impacted auditor interactions with contractors, DCMA contracting officers, and buying commands. As a result, issuance of audit reports has slowed to a crawl. And those reports that have been issued, generally have been riddled with factual errors and other quality shortcomings, because (a) auditors are afraid to openly communicate with those they are auditing (as well as those agency customers requesting the audits), and (b) once the auditors reach a preliminary finding, everybody (from

the auditor to the supervisory auditor to the branch manager to the regional audit manager) is afraid to change it—even when confronted by facts that would lead a reasonable person to a different conclusion.

As we've noted many times on this website, it now takes roughly three times longer for DCAA to issue its audit reports, and those it does manage to issue don't provide much value to anybody. We know DCMA is working hard to dissolve its dependence on the audit agency, and we recently noted some [criticism](#)

from the DOD IG regarding DCMA's efforts in that regard. Perhaps sensing that something must be done to turn the tide, DCAA issued

[MRD 10-PSP-023\(R\)](#)

on September 9, 2010.

Entitled, "Audit Alert on Auditor Attendance at Negotiations," the audit guidance "encourages" DCAA auditors to support DCMA contracting officer negotiations—but also puts limits on that interaction. Following are a selected few quotes from the audit guidance—

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It is DCAA's policy to support contracting officers at negotiations where DCAA has issued an audit report on the contractor's submission (e.g., price proposals, incurred cost submissions, termination claims), especially for complex submissions with significant audit issues. Attendance at pre-negotiation meetings with the contracting officer when requested to discuss audit report results is also encouraged.

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Providing support and technical advice based on the auditor's technical knowledge and expertise to help the contracting officer understand audit report results does not impair auditor independence. Answering questions about audit rationale/computations or giving advice regarding contractor rebuttals to reported

results helps the contracting officer understand audit conclusions.

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At times, contractors provide information and/or data directly to the contracting officer as a means to support their proposed positions in anticipation of or during negotiations. ... The contracting officer may request DCAA assistance in understanding how that data impacts the reported audit conclusions. Auditors should support the contracting officer, to the extent possible, by providing advice on this data. This may include, for example, providing advice on the contractor's rationale for a revised estimate, verifying data to the contractor's books and records or other supporting data, or running various Government position scenarios using the data through audit report schedules and underlying spreadsheets, where appropriate.

The MRD includes a Frequently Asked Questions (FAQ) section. Here is a quote from that section of the MRD—

[The auditor] should answer the cost analyst's questions to help him understand the audit conclusions and rationale. Providing such explanations is a normal part of any audit and does not impair your independence or otherwise violate GAGAS. ... On occasion, it may also be appropriate to provide selected working papers which support complex audit computations to facilitate the contracting officer's understanding.

The foregoing sounds good and would appear to be aimed at facilitating negotiations. However (as we noted above), the guidance also limits auditor interaction with the negotiating parties. In particular, the MRD discusses circumstances in which the auditor should seek to issue a "supplemental report" instead of supporting negotiations. The audit guidance says—

DCAA Tells Auditors How to Support Contracting Officer Negotiations

Written by Administrator

Thursday, 23 September 2010 02:30

... if the data is complex and/or represents a significant update to the audited proposal, and requires extensive review or analysis, the auditor would generally need to issue a supplemental report. ... When a supplemental report is not issued, any documentation provided to the contracting officer of the work performed should be clearly marked to distinguish it from audit report results. For example, it should include a statement noting that the documentation contains advice provided in support of negotiations and does not represent audited data, nor a revised audit opinion. Nothing short of a supplemental report will result in a revised audit opinion.

We note that, once again, DCAA refuses to let new facts get in the way of its prior audit findings—leaving the contracting officer and buying commands stuck in limbo awaiting a supplemental report in order to have DCAA officially alter its original opinion based on receipt of new facts. The FAQ emphasizes this audit guidance, stating that, where the new facts require “extensive review or analysis,” then the auditor should—

... recommend in writing that the contracting officer *delay the negotiations* for that part of the proposal to allow time for [a supplemental report to be issued]. ... in the meantime, the contracting officer [should] proceed with the negotiations for the other parts of the proposal. [Emphasis added.]

The MRD also directs that auditors cannot review data provided by contractors during negotiations unless they have first performed sufficient audit work to support an opinion on that data. In such circumstances, the audit guidance directs auditors to “recommend to the contracting officer that the FAO audit the costs and issue a supplemental report.” That supplemental report, as you readers know, will take roughly 90 days to issue. Meanwhile, negotiations are stalled, the contract schedule becomes unattainable, and the resulting delay leads to increased costs. Not to mention, somebody somewhere doesn’t get what they need to accomplish their mission.

Undersecretary of Defense (A,T&L) Dr. Ashton Carter recently emphasized the

importance of schedule in program execution. As [this interview](#) of Dr. Carter at DefenseNews.com reports—

Q. What's most important: requirements, cost, schedule?

A. The variable we pay the least attention to is time. And time is money. The default way of dealing with a program that is costing too much is to buy it more slowly. The default way of dealing with a program that is not meeting its requirements is to keep working on it until it does. So a five-year program stretches 10 years, and a 10-year program stretches to 15. That costs money. Those stretches don't cost more money per year, and no one feels a cost increase over 15 years. We need more programs with a philosophy of meeting a strict schedule.

Dr. Carter, if you want to see programs embrace a philosophy of meeting a strict schedule, you might want to start with evaluating why negotiations drag on so long and program delivery dates have already slipped before the first labor hour has been incurred. And should you do so, you might want to review the impact of DCAA's recent audit guidance on that process.

We're just saying.