We recently received a Google alert taking us to **this article** at The Washington Business Journal. The Bizjournal article reported that DCAA has issued fewer audit reports in Government Fiscal Year (GFY) 2010 than it has in a long time, continuing a very unfortunate trend. The article reported a "rather alarming dip in the number of audits completed" by DCAA, which reported 11,746 audit reports issued in the GFY ending September 30, 2010, down from 16,213 in the previous GFY. For those doing the math, that's a 28% drop in productivity—at the same time that DCAA was hiring additional staff.

Actually, the news article is wrong. The productivity drop is much worse than it reported. We did some research on the DOD Inspector General's historical Semi-Annual Reports (SARs) to Congress, and found out that DCAA's GFY 2009 output was 21,276 reports—not the 16,213 reported by The Washington Business Journal. (Note that our value was confirmed in written testimony from DCAA Director Pat Fitzgerald to the Commission on Wartime Contracting (CWC).) For those keeping track, that's a productivity drop of a *whopping 45 percent!*

We looked at Mr. Fitzgerald's testimony to the CWC and the DOD IG SARs, and developed the following **chart for your perusal** —

As can be seen from the foregoing, although DCAA has added roughly ten percent to its auditor staffing levels, its audit report output has declined precipitously. What in the heck is happening to the DOD's premier audit agency?

The journalist at The Washington Business Journal asked a DOD spokesperson the same question. The article reported that DOD attributed the fall-off in audit report output to "greater diligence" on the part of DCAA auditors. The DOD spokesperson was quoted as saying, "The decrease in audits over the last few years is largely due to an increase emphasis on quality and implementing additional audit procedures."

Well, maybe. Certainly we have experienced larger sample sizes and additional transaction testing. But we would assert that there were other, more proximate, causes for the productivity drop-off, including additional redundant reviews of audit working papers, additional required working paper documentation, and (dare we say?) mismanagement of agency resources.

But perhaps the real story is that *DCAA is starting fewer audits than at any time in its recent history.* It's tough to generate output when the input has dwindled.

The BizJournal article referenced a recent "Clarity report" issued by Deltek, in which survey respondents discussed their experiences with DCAA. According to the BizJournal article, "35 percent of those surveyed said their last internal control audit … was more than a year ago, a 14 percent increase compared to last year's survey."

Similarly, **an article** at WashingtonTechnology.com referenced the Deltek survey, and reported that it's taking government contractors longer to collect payments from the Federal government and that profit margins were dropping. In addition, Rich Wilkinson (Deltek Vice President) was quoted as saying that "DCAA appears to be in chaos." He added, "While we aren't seeing more audits, we are seeing more adverse results."

We were interested in the Deltek Clarity report and downloaded it. (Thank you, Deltek, for making that report available.)

The first thing we noticed was that the BizJournal's statistics on DCAA ICAP-type audits (quoted above) were misleading. The true story is that the number of survey respondents that reported more than a year lag since an internal control audit increased by 14 points, from 21 percent to 35 percent of respondents. That's not a 14 percent increase: *that's a 67 percent increase!* According to the Deltek report, more than one-third of all respondents had not experienced a DCAA internal control audit in more than a year. (We noted that another 35 percent of survey respondents reported that they had *never* had an audit of their internal control systems.)

In addition, Deltek reported that "The number of firms reporting a decrease in government oversight spiked from 2% in 2009 to 20% this year—a tenfold leap."

Deltek also reported that "Relationships with auditors are worsening. Not only was there a ten-point drop in the percentage of respondents reporting Excellent relationships [with DCAA], but for the first time, nearly 3% of firms characterized their relationships as Poor.” Looking at trends, Deltek reported that nearly 20 percent of survey respondents assessed their relationships with DCAA as “Worsening”.

Deltek summarized the situation thusly—

It is clear that the DCAA is in a period of change. In spite of guidance from 2 years ago suggesting we would see more Internal Control Reviews, this year’s study indicates firms have experienced a significant drop. It is possible that changes at the Agency have diverted resources from this initiative. Based on reported Agency priorities for 2011, it is also possible the number of reviews conducted this next year may go down even further. Related to this, the number of firms reporting a decreased level of oversight this year was a surprise. We surmise that the resource constraints in the Agency are resulting in fewer audits and a perception of less oversight.

We’ve already mentioned our thoughts on the causes for the current environment. They differ somewhat from those of the Deltek folks. But the thing is, we both agree that DCAA is in turmoil, is “diverting” resources, and that the trend indicates things will get worse before they get better.

For our clients and other readers of this blog article, you should understand that it’s not you. Your problems are not uniquely yours. In fact, your DCAA audit problems are nearly universal across the industry and they are shared by your competitors and team members. Nearly every contractor has the same problems and nearly every contractor is wrestling with the same concerns.

It’s not you: it’s DCAA.